PHILLIPS PETROLEUM COMPANY
1982 ANNUAL REPORT

Corporate Profile

In 1983 Phillips celebrates its 66th anniversary, an occasion of more than ordinary significance in view of the company's long-established trademark. Phillips remains headquartered in Bartlesville, Okla., where the company was founded in 1917.

Phillips is engaged in petroleum exploration and production on a worldwide basis, and petroleum refining and marketing in the United States. The company produces and distributes chemicals in the United States and has production facilities or sales offices in 23 other countries. Since the early 1970s, the company has been developing businesses in other energy fields, including coal, oil shale and geothermal power. The company's operating activities are organized in five groups: Exploration and Production, Gas and Gas Liquids, Minerals, Petroleum Products and Chemicals. Each group's operations are summarized in individual sections of this report.

At the end of 1982, Phillips employed 29,600 people, had 123,100 shareholders and assets of $12.1 billion. The company's products and processes were licensed in 37 countries.

About the Cover

The coastline of Southern California is visible on the horizon as a helicopter delivers a crew to its work site aboard a rig drilling for Phillips and a co-venturer. The rig is drilling in the company's Point Arguello oil field. Drilling in the area by Phillips and by other companies indicates the presence of a giant field with possible recovery of 300 million to 500 million barrels of oil.

Contents

Highlights

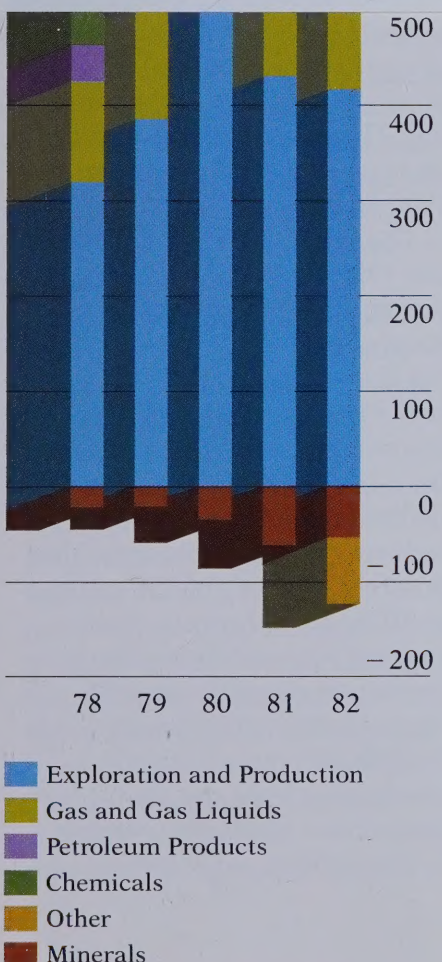
Sent with the thought you may find the attached of interest.

No acknowledgment is expected.

RUSSELL L. HOWARD
Vice President

PHILLIPS PETROLEUM COMPANY
630 Fifth Avenue
New York, New York 10111

	Millions of Dollars Except as Indicated		
	1982	1981	1980
:al			
venues	**$15,892**	16,288	13,713
ome	**$ 646**	879	1,070
ome per average : outstanding	**$ 4.23**	5.78	7.01
ome from each dollar /enue	**4.1¢**	5.4	7.8
xes charged to income Note 10 of notes to ıcial statements)	**$ 1,931**	2,441	2,473
ıds paid	**$ 336**	335	275
ıds per share	**$ 2.20**	2.20	1.80
: shares outstanding ıousands)	**152,711**	152,181	152,670
expenditures	**$ 2,132**	2,664	1,666
;sets at year-end	**$12,097**	11,264	9,844
	Net Thousands of Barrels Daily		
ng			
›il produced ːd States	**112**	116	120
ide United States	**113**	130	169
l gas liquids produced	**160**	163	163
Total liquids produced	**385**	409	452
Crude oil refined	**277**	285	262
Petroleum products sold	**513**	501	509
	Net Millions of Cubic Feet Daily		
Natural gas produced	**1,260**	1,388	1,497



"Phillips," "the company," "we" and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The company's consolidation policy is to include in financial statements the accounts of companies in which more than 50-percent interest is held, except for an insurance company and a credit company.

Marlex, Ryton, K-Resin, Rufon, Petrotac, Poly Slik, Solprene, Driscopipe, Soltex and Philprene are trademarks for the company's products and processes named in this report.

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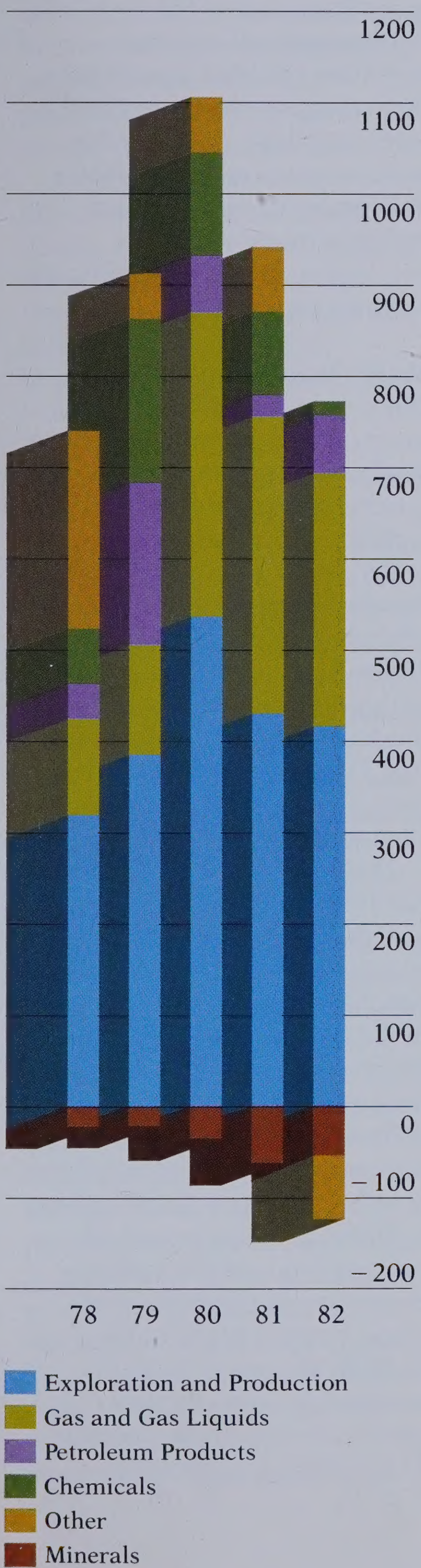
Highlights

Net Income
(Millions of Dollars)



	Millions of Dollars Except as Indicated		
	1982	1981	1980
Financial			
Total revenues	**$15,892**	16,288	13,713
Net income	**$ 646**	879	1,070
Net income per average share outstanding	**$ 4.23**	5.78	7.01
Net income from each dollar of revenue	**4.1¢**	5.4	7.8
Total taxes charged to income (see Note 10 of notes to financial statements)	**$ 1,931**	2,441	2,473
Dividends paid	**$ 336**	335	275
Dividends per share	**$ 2.20**	2.20	1.80
Average shares outstanding (in thousands)	**152,711**	152,181	152,670
Capital expenditures	**$ 2,132**	2,664	1,666
Total assets at year-end	**$12,097**	11,264	9,844

	Net Thousands of Barrels Daily		
Operating			
Crude oil produced			
United States	**112**	116	120
Outside United States	**113**	130	169
Natural gas liquids produced	**160**	163	163
Total liquids produced	**385**	409	452
Crude oil refined	**277**	285	262
Petroleum products sold	**513**	501	509

	Net Millions of Cubic Feet Daily		
Natural gas produced	**1,260**	1,388	1,497

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To the Owners:

C. J. Silas

Wm. C. Douce

Nineteen eighty-two was a year of reappraisal for our company. Anticipating reduced demand and lower prices because of the worldwide recession, we cut costs, reduced the size of our work force and eliminated operations that were marginally profitable or losing money. At the same time, 1982 was a year of significant accomplishment. Oil production began offshore the Republic of Ivory Coast, and further drilling offshore California confirmed the presence of a giant oil field. These developments, coupled with the recent acquisition of General American Oil Company of Texas, are evidence that our company is moving forward despite difficult economic conditions.

1982 Developments
Earnings for the year were $646 million, or $4.23 a share, compared with 1981 earnings of $879 million, or $5.78 a share. Revenues in 1982 were $15.89 billion, slightly below the record $16.29 billion of 1981.

Key operating factors that reduced earnings were lower worldwide production and prices of crude oil and natural gas liquids and higher exploration expenses. In addition, the worldwide recession resulted in reduced prices for most chemical products and lower sales volumes in several major product lines.

Our 1982 earnings were reduced significantly by write-offs and sales of assets taken in connection with our vigorous reappraisal of all operations. The closing of the Kansas City refinery and write-offs and sales of other facilities reduced earnings $93 million. We also had a $65 million write-down in connection with the operation of our insurance company affiliate.

The disposal of various operations, combined with belt-tightening in all ongoing activities, enabled us to reduce the size of our work force by 14 percent in 1982. Much of the reduction was accomplished through a planned attrition program under which employees who left the company were not replaced.

Major Accomplishments
Our continuing effort to find more oil and gas and bring new reserves into production as quickly as possible yielded significant results in 1982.

Oil production began during the year from the Espoir field offshore the Ivory Coast in West Africa. For the last four months of the year, our share of this production was 6,000 barrels a day. The potential of several oil and gas discoveries made in 1982 is being evaluated.

The most significant event in our 1982 exploration program was the drilling of a second successful well off the coast of Southern California in the area of the Point Arguello field, discovered in 1981. Test results from these two wells and wells drilled by others in the area indicate that the field may have possible recovery of 300 million to 500 million barrels of oil, making it one of the nation's largest crude oil discoveries since Alaska's Prudhoe Bay in 1968. We expect initial production from our first production platform to begin in late 1985 or early 1986.

During 1982 additions to our worldwide petroleum liquids reserves equalled production for the first time since 1974. U.S. petroleum liquids reserves were up 3 percent for the year, in part because of reserve additions associated with the first production platform planned for the Point Arguello field.

Among the promising exploration areas acquired during 1982 were two blocks in the northern section of the Norwegian North Sea and two federal leases in Alaska's Beaufort Sea northwest of the Prudhoe Bay field.

In our downstream operations, the modernized and expanded Sweeny, Texas, refinery completed a successful year of operation. A modernization program at the Borger, Texas, refinery was under way, and major units were mechanically completed during the year. Both refineries now have the capability to upgrade substantial volumes of low-cost, high-sulfur crude oil into high-value products. Our refineries operated at more than 80 percent of crude capacity in 1982, well above the industry average of 70 percent.

Our chemicals business directed its efforts in 1982 toward trimming operations and increasing efficiency. However, we stepped up activities which have high potential for growth despite the sluggish state of the general economy. We expanded our Ryton plastic plant at Borger to meet the growing demand for engineering plastics, and we entered the catalyst manufacturing and mining chemicals businesses.

The acquisition of General American Oil Company of Texas, completed this month, was a major step to strengthen the company's petroleum resource base. This acquisition bolsters our crude oil production by 16 percent and increases our domestic petroleum liquids reserves by 11 percent. General American's substantial undeveloped acreage boosts our net undeveloped acreage in the United States by 31 percent.

The General American acquisition will add $1.14 billion to our capital expenditures in 1983. Our ongoing capital expenditure program for 1983, not counting the General American purchase, is expected to be 20 to 25 percent lower than 1982 expenditures of $2.13 billion. Further adjustments will be made as General American's ongoing capital spending program is blended with our own program.

Key management changes in 1982 included the election of C. J. Silas as president and chief operating officer. Wm. C. Douce, the company's chief executive officer, succeeded W. F. Martin as chairman of the board when Martin reached normal retirement age.

Looking Ahead

We expect to begin production from our Maureen field in the U.K. sector of the North Sea late in 1983. Full production is anticipated in mid-1984. The general economic conditions which affected our earnings in 1982 seem unlikely to improve significantly this year, although we will benefit from the recent reduction in the rate of inflation, moderating interest rates and strengthening economic activity. Oil prices have dropped in recent weeks, which we feel will further stimulate economic recovery around the world. Lower feedstock costs and increased demand for petroleum and chemical products generated by economic recovery could partially offset the negative earnings impact of lower crude oil prices. The outcome of the current political debate over natural gas decontrol is another factor which could affect our 1983 earnings.

To operate successfully in this uncertain environment, we intend to continue trimming less profitable activities and enlarging our petroleum resource base. We are working to find new opportunities for growth, and we remain optimistic about the future of our company and the industry.

For the Board of Directors,

Wm. C. Douce

Chairman and
Chief Executive Officer

C J Silas

President and
Chief Operating Officer

March 22, 1983

Exploration and Production

The discovery of a giant oil field off the California coast and the start of production from the Republic of Ivory Coast highlighted Phillips exploration and production activities in 1982. During the year, the company also moved ahead to bring its first crude oil from the United Kingdom sector of the North Sea into production in late 1983.

Net income from Exploration and Production was $416 million in 1982, compared with $430 million in 1981. Equity in earnings from affiliated companies related to Exploration and Production amounted to an additional $32 million in 1982, compared with $44 million the previous year. Part of the decline in Exploration and Production's earnings resulted from higher exploration expenses and lower prices for crude oil. Another factor in lower earnings was a decline in worldwide crude oil and natural gas production, brought on primarily by lower crude oil output from the Greater Ekofisk Development in the Norwegian North Sea and a decline in U.S. natural gas production. Worldwide crude oil production was down 8 percent from 1981, while worldwide natural gas production declined 9 percent.

U.S. and foreign taxes also continued to affect earnings adversely. In 1982, 77 cents out of every dollar of Exploration and Production's pretax income went for income taxes, compared with 79 cents in 1981. The company's income taxes on its Norwegian operations were

With the waters of the Pacific only a few feet beneath them, two workers help anchor the semisubmersible rig that drilled an exploratory well that discovered oil for Phillips and a co-venturer offshore California.

$943 million in 1982, compared with $1.2 billion a year earlier. The U.S. crude oil excise tax—or the so-called windfall profits tax—amounted to $226 million, or $5.52 a barrel of U.S. crude oil produced.

The company's vigorous exploration effort caused worldwide petroleum exploratory costs expensed and leasehold impairment to rise 29 percent in 1982 to $633 million. Of this, dry hole costs amounted to $328 million, up 65 percent from 1981.

In 1982 exploration and production activities were carried out in 18 nations. Phillips drilled or participated in the completion of 138 exploratory wells, 41 of which were successful.

In addition to a discovery offshore California, other discoveries were made in Wyoming's Powder River Basin, Alaska's North Slope, the Norwegian North Sea, offshore the Republic of Ivory Coast and the Canadian Arctic Islands. The company also participated in the completion of 65 exploratory wells through farmout arrangements. Of these, 22 of the wells were successful. Under farmout arrangements, other firms drill on Phillips acreage in return for an interest in the acreage and any future production.

Reserves

Phillips estimated worldwide proved reserves of crude oil and condensate decreased 2 percent during the year to 737 million barrels. Natural gas liquids proved reserves increased 7 percent to 178 million barrels. Worldwide proved natural gas reserves totaled 6.68 trillion cubic feet, slightly lower than a year ago.

Estimates of proved reserves are based upon reservoir information, technology and economics available at the end of the year. Such reserves, however, cannot be measured precisely. Adjustments are made to reserve estimates to reflect changes in economic conditions, results of drilling and production and technical re-evaluation of reservoirs.

Prices and Revenues

Average prices for crude oil were lower in 1982 than in 1981, primarily because of reduced demand. Natural gas prices, however, were higher during the year. At the end of 1982, Phillips average price for U.S. crude oil was 9 percent lower than a year ago.

Because of higher natural gas prices, the group's revenues from natural gas in the United States rose 3 percent. Overseas, natural gas revenues were 10 percent higher than in 1981. This excludes the adjustment for an escalation in the U.K. natural gas price, which was retroactive to Oct. 1, 1980.

United States

In 1982 the company's U.S. crude oil production decreased 3 percent from a year earlier. Lower production was the result of the natural decline in U.S. fields. U.S. natural gas production was down 12 percent. Reduced demand caused by economic conditions was the primary factor behind an industrywide decline in natural gas production.

A helicopter delivers crew and supplies to a rig drilling offshore Southern California.

Exploration and Production's U.S. capital expenditures were $600 million in 1982. U.S. exploratory costs expensed and leasehold impairment reached $352 million for the year. The company drilled or participated in the completion of 1,103 U.S. exploratory and development wells in 1982, a 15-percent increase from 1981.

The most significant development in Phillips exploration effort in 1982 was an oil discovery made offshore Southern California in the Santa Maria Basin. The discovery is five miles northwest of the Point Arguello discovery, which was announced in 1981. The newest discovery is located on a $333.6 million federal lease, the most expensive oil lease ever obtained in the United States. Phillips has a 50-percent interest in the discovery and a 40-percent interest in the Point Arguello discovery.

These two discoveries are believed to be part of one large structure, with a gross pay zone thickness of approximately 1,000 feet. Drilling in the area by Phillips and by other companies indicates the presence of a giant oil field with possible recovery of 300 million to 500 million barrels of oil.

Delineation drilling to

A drilling crew lowers more pipe into an exploratory well in the icy waters of Alaska's North Cook Inlet. In 1982 Phillips participated in 129 exploratory and development wells in Alaska. Production from Alaska accounts for about one-fourth of the company's U.S. crude oil production. In addition, Phillips has approximately 200,000 net acres in Alaska.

confirm the field's size is continuing. At the end of 1982, Phillips and co-venturers had four rigs drilling offshore California. The company plans to drill another 14 wells in the area in 1983.

In all, Phillips has an interest in 46 federal leases offshore California, with interests ranging from 25 to 50 percent.

Engineering design work for a production platform for the Point Arguello discovery is under way. Construction is scheduled to begin in late 1983, with installation in 1985 and production to begin in late 1985 or early 1986.

Onshore California, Phillips completed an oil well in the heavy oil area of San Luis Obispo and Monterey counties. Four other wells were being evaluated at the end of 1982.

In the northwestern United States, the company drilled 40 oil and natural gas wells in 1982 in the South Thunder Creek prospect in Wyoming's Powder River Basin. At the end of the year, production averaged 1,000 barrels of oil a day and was expected to increase to 4,500 barrels a day by mid-1983. Phillips has interests in the area ranging from 32 to 87.5 percent.

Phillips holds more than 3.3 million net acres in the Rocky Mountain Overthrust Belt. In 1982 the company drilled an unsuccessful exploratory well in Idaho, one in Utah and another in Wyoming. Several other projects are being evaluated by seismic survey.

Phillips participated in one oil discovery and two natural gas discoveries in the Hugoton area of Oklahoma and Texas in 1982. More drilling is planned in the area in 1983.

Phillips continued drilling on its acreage in the Ship Shoal Block 15 field offshore Louisiana that was discovered in 1981. At the end of the year, production averaged 38 million cubic feet a day of natural gas and 1,600 barrels a day of condensate. Phillips has a one-third interest. In other areas of the Gulf of Mexico, the company drilled three unsuccessful exploratory wells during the year. The company plans to begin drilling in 1983 on some of its six newly acquired federal tracts offshore Texas and Louisiana.

The remote landscape of Wyoming's Powder River Basin is the site of an active drilling and development program for the company. This rig drills in the South Thunder Creek prospect, where Phillips participated in 40 oil and natural gas wells in 1982. More drilling is planned in 1983.

In Alaska, Phillips holds approximately 200,000 net acres, almost half located on the North Slope. Production from the North Slope averaged 27,100 barrels of oil a day in 1982, about the same as last year, and accounted for 24 percent of the company's total U.S. crude oil production.

The company has a 30-percent interest in an oil and natural gas appraisal well drilled in 1982 in the Point Thomson Unit on the North Slope. Additional geologic and engineering studies are planned to prepare for the possible development of the Point Thomson Unit.

In late 1982, the company purchased a 32-percent interest in two federal leases in the Beaufort Sea. These new leases are located in the Diapir field directly northwest of the giant Prudhoe Bay oil field, discovered in 1968.

In 1982, 87 percent of the company's U.S. crude oil production and 78 percent of its U.S. natural gas production came from onshore fields. Development drilling and enhanced recovery projects helped increase production from older, existing fields, most of which are located onshore.

The company is involved in a number of complex secondary and tertiary recovery projects to increase production from older fields. In 1982 these projects accounted for 33 percent of the company's U.S. oil production.

Norway

The Greater Ekofisk Development in the Norwegian North Sea, in which Phillips has a 37-percent interest, continued to be the company's single most important petroleum operation and a major contributor to net income. In 1982 Greater Ekofisk accounted for about 30 percent of the company's total energy production.

Production from the seven-field area peaked in 1980 and is now declining. In 1982 crude oil production was down 15 percent from 1981 levels, natural gas liquids increased 8 percent and natural gas was about the same as last year's level. In 1982 the company's production averaged 85,500 barrels a day of crude oil,

A tanker loading facility is towed into the U.K. North Sea, where it will become part of the Maureen oil field production system.

12,300 barrels a day of natural gas liquids and 404 million cubic feet a day of natural gas.

The company continued to evaluate the possibility of waterflooding the Ekofisk field to increase the ultimate recovery of crude oil. The technology developed from a pilot waterflood, which began in 1981, has proved feasible. A full-scale waterflood of the field is being evaluated.

Near the Greater Ekofisk Development, Phillips successfully completed an appraisal well in the Tommeliten gas condensate field. The field is located in block 1/9 in the Norwegian North Sea. Phillips has a 26-percent interest.

In other areas of the Norwegian North Sea, Phillips was awarded a 30-percent interest in two blocks north of the 62 degree north parallel, which is the most recent offshore area Norway has opened for exploration. Phillips is the operator of one of the blocks. In 1982 the company participated in two natural gas discoveries north of the 62 degree north parallel. Phillips has a 5-percent interest in one discovery and a 10-percent interest in the other. The company plans to participate in four exploratory wells to be drilled offshore northern Norway in 1983.

United Kingdom

Phillips expects to begin producing oil from the Maureen field in the North Sea in late 1983. This will be the company's first crude oil production from the U.K. North Sea. Production facilities are nearing completion and will be towed this spring to the field, located some 160 miles northeast of Aberdeen, Scotland. The field is expected to be in full production in mid-1984, with gross production averaging 72,000 barrels of oil a day. Phillips has a 34-percent interest in the field.

To the northwest of Maureen, Phillips has a 35-percent interest in three discoveries in an area known as the T-Block. The company is now studying the results of a detailed seismic survey in order to determine the feasibility of additional appraisal drilling as well as possible future development.

In 1982 Phillips 19-percent share of production from the Hewett area natural gas fields averaged 67 million cubic feet a day, down 18 percent from a year ago.

Ivory Coast

Phillips first production from the Espoir oil field offshore the

Workers gather on a landing of the lower portion of the production platform for the company's Maureen field. In early spring, the upper and lower portions will be joined at the field site so that production can begin in late 1983.

Republic of Ivory Coast began in August. For the last four months of the year, Phillips share of production from five wells averaged 6,000 barrels of oil a day.

The company has a 57.5-percent interest in two production-sharing contracts covering the field, although the company's interest in one contract could be reduced if the Ivorian national oil company exercises its option to increase its participation up to a total of 60 percent.

In 1982 the company had six oil and gas condensate discoveries offshore the Republic of Ivory Coast. At the end of the year, four of these wells were considered noncommercial. Results of the other two wells were being evaluated. In addition, four unsuccessful wells were drilled in the area.

Phillips has 1.4 million net acres offshore the Republic of Ivory Coast. Exploratory drilling will continue in the area during 1983.

Nigeria

Development drilling continued in Nigeria, where Phillips has a 100-percent interest in one field and a 20-percent interest in 20 other fields. Net output from the fields averaged 21,300 barrels of oil a day in 1982, the same as last year.

Egypt

Net production from three fields averaged 2,800 barrels of oil a day in 1982, down 7 percent from a year ago. A development drilling program will continue in 1983.

Indonesia

Net production from Indonesia averaged 1,100 barrels of oil a day in 1982, 78 percent lower than a year earlier. Most of the decline was caused by a production shutdown in a contract area of northeast Kalimantan, where Phillips has a 50-percent interest in one oil field. The Indonesian government suspended production and exploration in the area in 1981, but production is expected to resume in early 1983 and should permit the recovery of previously incurred costs. After the company has recovered all its costs, the field and related equipment will be turned over to Indonesia's national oil company.

In 1982 seismic work was carried out on two other areas in northeast Kalimantan. Phillips has a 25-percent interest in one area covering 786,000 acres and a 50-percent interest in an area covering 61,000 acres.

Canada

Phillips participated in four wells offshore the Canadian Arctic during 1982. One well encountered natural gas, and another was a successful appraisal well in the Cisco oil field, discovered in 1981. The company plans to participate in another appraisal well in the Cisco field in 1983.

Phillips has interests in five other oil and natural gas discoveries in the Canadian Arctic as well as interests in several natural gas discoveries in the Canadian Overthrust Belt in Alberta and British

Children watch a group of seismic trucks roll down a rural road in Thailand, where Phillips began seismic work in 1982.

Columbia and in four heavy oil areas in northeast Alberta.

Other Exploratory Areas
In 1982 the company drilled its first exploratory well on a 400,000-acre area off the southeast coast of Australia. The well was unsuccessful. In another area off the southern coast of the country, the company completed an unsuccessful well on a tract covering 1.6 million acres. Phillips has a one-third interest in both areas. The company plans to drill three wells offshore Australia in 1983.

One noncommercial natural gas discovery and two unsuccessful exploratory wells were completed offshore the Philippines in 1982. The company has a 50-percent interest in the area. No additional drilling is planned in 1983.

In South America, Phillips has a 30-percent interest in 4.9 million acres in Peru and plans to drill two wells in that country in 1983.

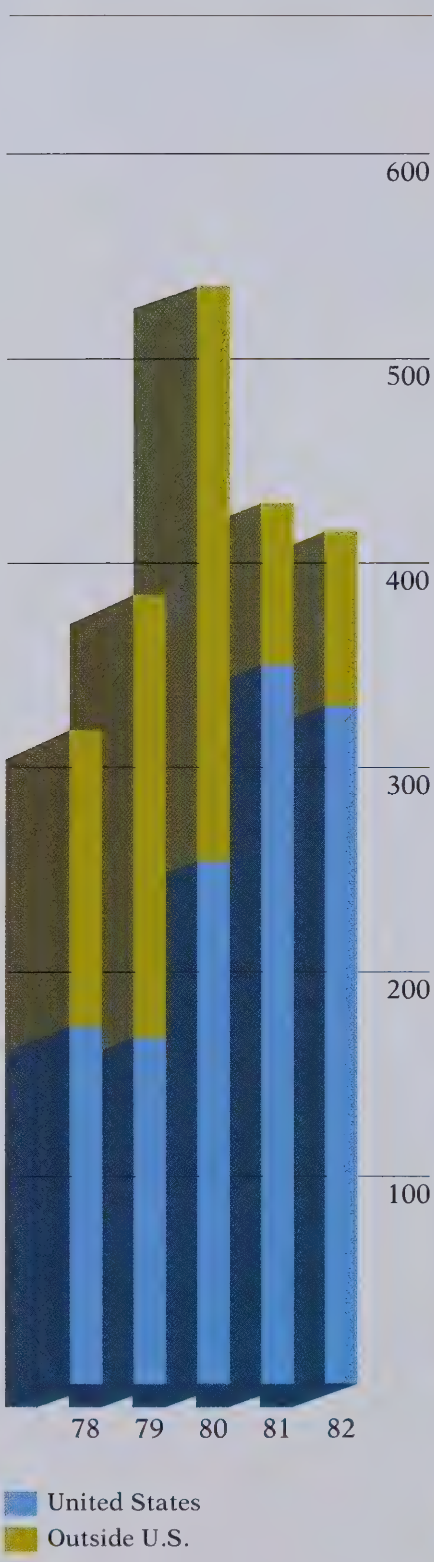
Seismic work began in 1982 onshore Thailand, where Phillips has a 50-percent interest in six million acres.

Phillips, along with another major oil company, has submitted bids for leases offshore the People's Republic of China. Awards are expected in mid-1983.

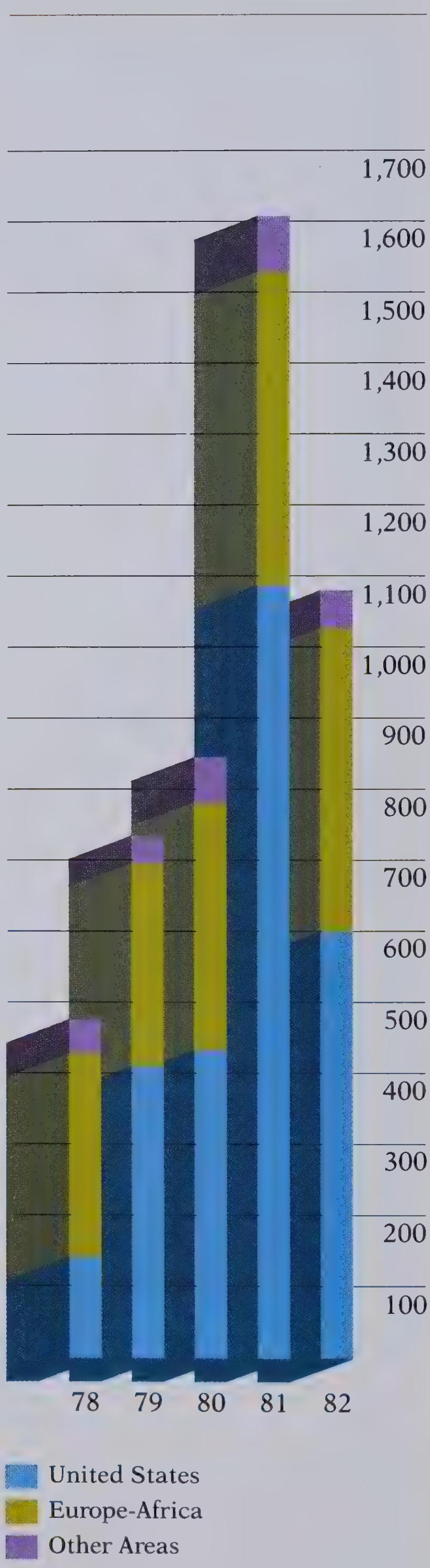
Offshore the Republic of Ivory Coast, this rig serves as a production platform for the Espoir oil field, where Phillips and co-venturers began producing from five wells in August. During the year, the company had several oil and gas condensate discoveries offshore Ivory Coast. More drilling will take place in 1983.

Exploration and Production Statistics

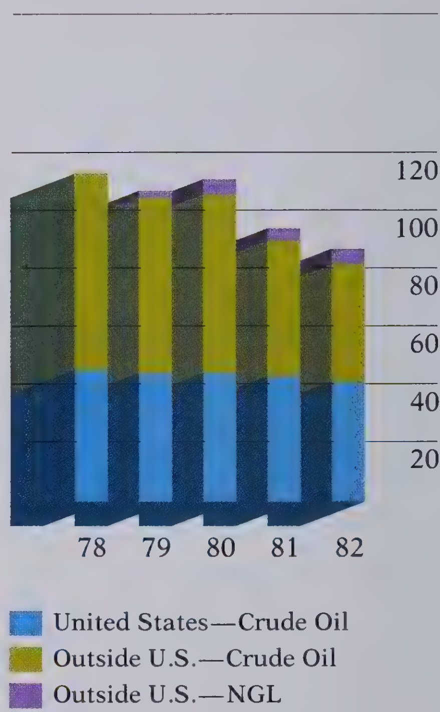
Net Income
(Millions of Dollars)



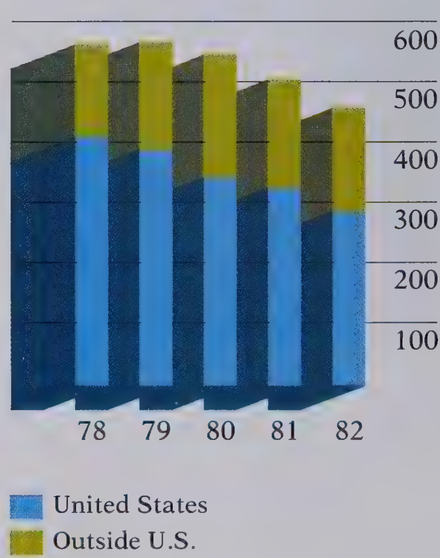
Capital Expenditures
(Millions of Dollars)



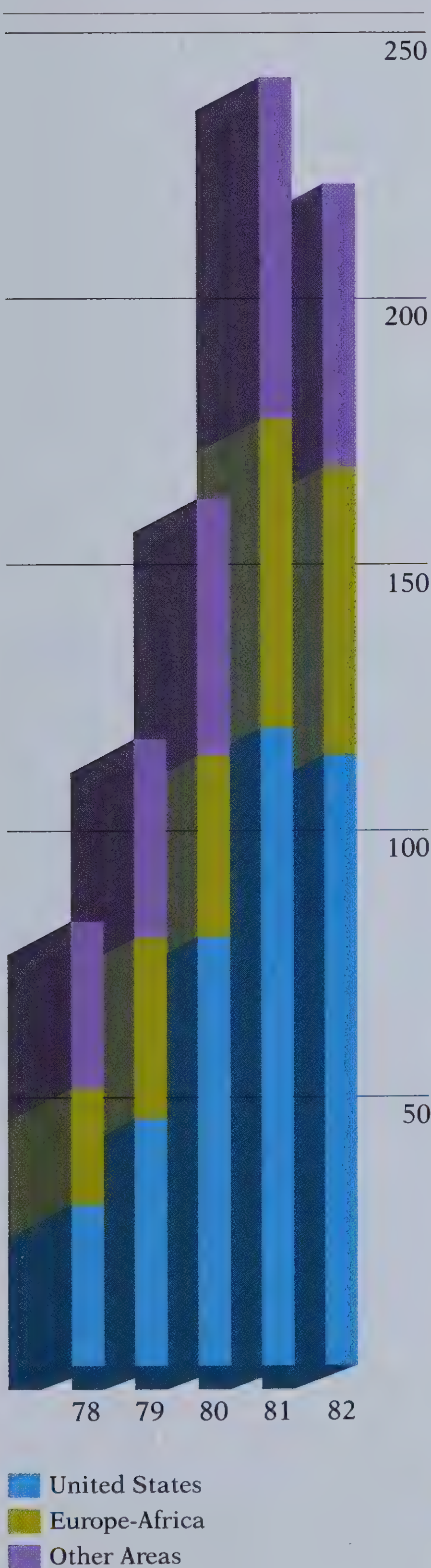
Net Crude Oil and Natural Gas Liquids Production
(Millions of Barrels)



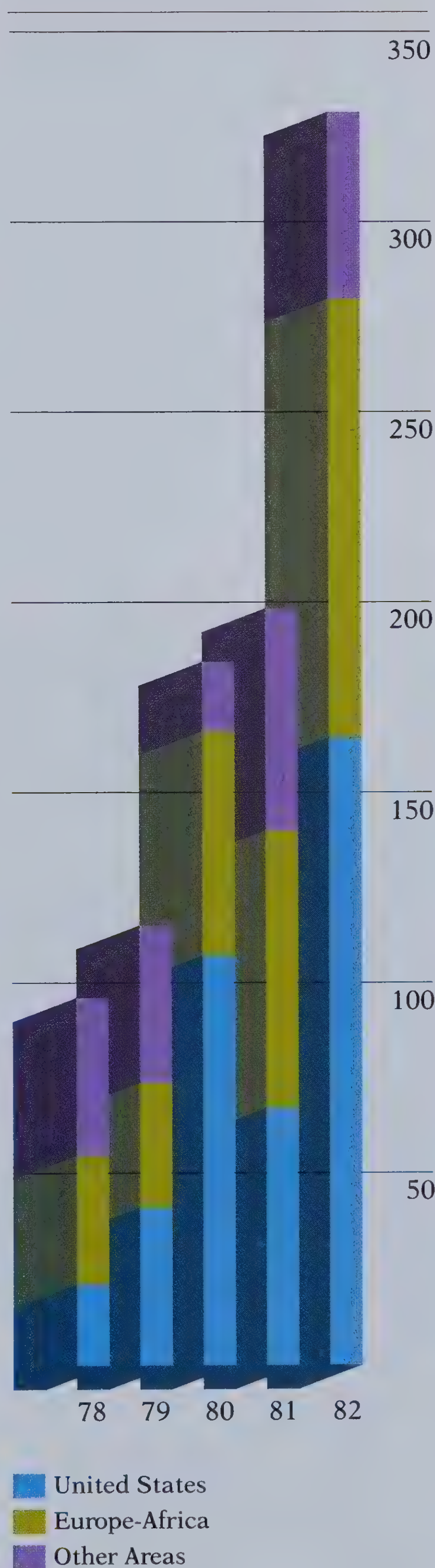
Net Natural Gas Production
(Billions of Cubic Feet)



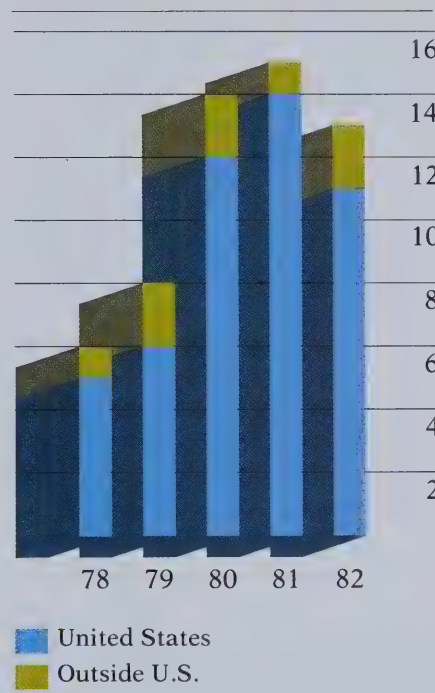
Geological and Geophysical Expenses
(Millions of Dollars)



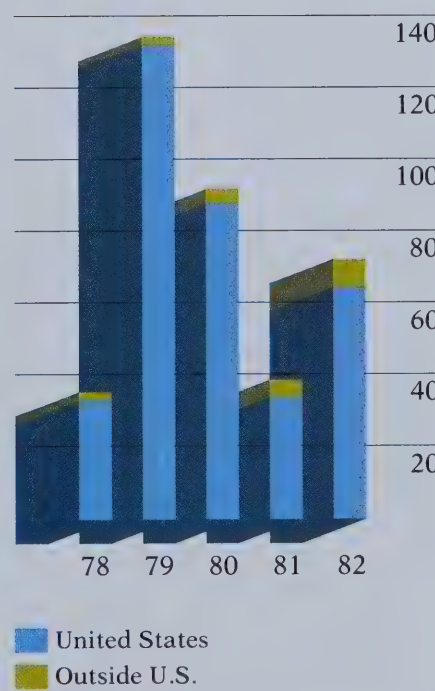
Dry Hole Costs
(Millions of Dollars)



Lease Rentals
(Millions of Dollars)



Impairment of Leasehold Investments
(Millions of Dollars)



Gas and Gas Liquids

Natural gas and natural gas liquids operations continue to be important contributors to Phillips earnings, although profits from this part of the business declined from levels reported a year earlier.

The Gas and Gas Liquids organization acquires, gathers and processes raw natural gas; extracts natural gas liquids for use in the company's refining, marketing and chemicals operations, and markets residue gas. In 1982 Phillips was the largest producer of natural gas liquids in the United States.

Net income for Gas and Gas Liquids in 1982 was $276 million, compared with $324 million in 1981.

The 15-percent drop in earnings for Gas and Gas Liquids resulted from a combination of factors. The single most important factor was increased acquisition costs for raw natural gas processed.

Other factors included slightly lower prices for natural gas liquids as well as slightly lower production.

Higher natural gas sales prices were the primary factor in a 30-percent increase in the group's natural gas revenues during the year.

Revenues for liquefied natural gas delivered under long-term contract from a 70-percent-interest plant in Kenai, Alaska, were down 14 percent as a result of a decline in volumes and prices.

U.S. Reserves
The company has access to large reserves of natural gas and natural gas liquids not only through its own exploration and production efforts but also through purchase contracts and processing and exchange agreements. Estimated U.S. reserves of natural gas available to the company through contracts and agreements totaled 1.94 trillion cubic feet at the end of 1982, compared with 1.98 trillion cubic feet in 1981. U.S. reserves of natural gas liquids available to the company under natural gas purchase contracts and processing agreements totaled an estimated 241 million barrels at the close of 1982, compared with 237 million barrels a year earlier.

Gas Gathering and Processing
Phillips large natural gas and natural gas liquids supplies have been a traditional strength in the company's ability to meet the fuel and feedstock requirements of its refinery operations and petrochemical manufacturing facilities. Natural gas liquids are used as fuel, in the blending of gasoline and as a raw material for manufacturing petrochemicals. The company's U.S. production of natural gas liquids averaged 147,700 barrels a day in 1982, compared with 151,900 barrels a day the previous year. The volume of natural gas processed by Phillips was 1.7 net billion cubic feet a day in 1982, compared with 1.8 net billion cubic feet a day in 1981.

Late in 1982, the company began operating the Quarry natural gas liquids extraction

In 1982 the company completed construction of the Quarry natural gas liquids extraction plant east of Austin, Texas. This is the second plant Phillips has constructed in the Austin Chalk Trend.

plant, which has a capacity of 75 million cubic feet a day and is located east of Austin, Texas. The plant is in the Austin Chalk Trend, an active drilling area. This is the second natural gas liquids extraction plant Phillips has constructed in the gas-prone Austin Chalk Trend.

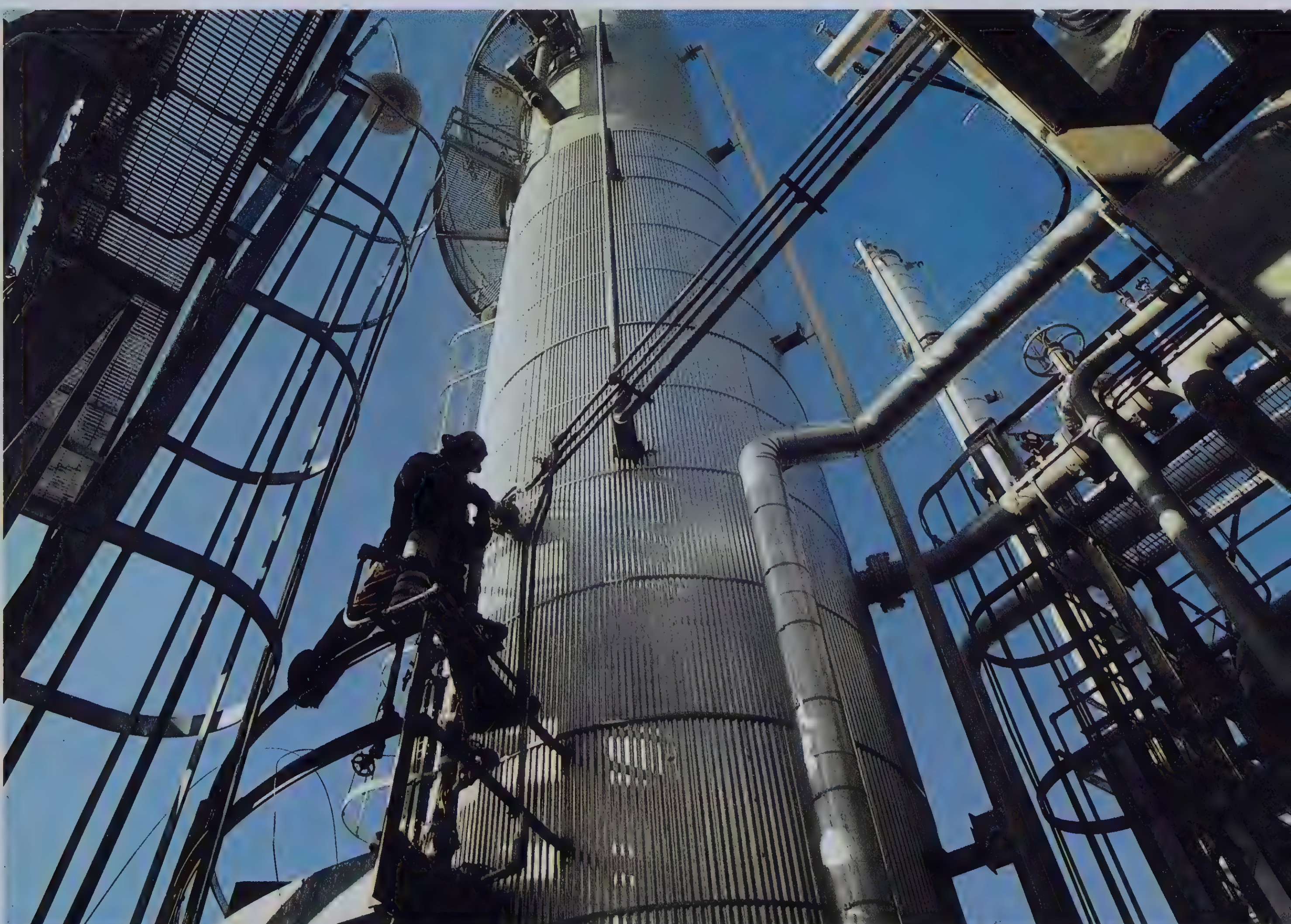
Final touches are put on the company's new Okarche, Okla., natural gas liquids extraction plant, which started up in 1982. One of two Phillips constructed in Oklahoma during the year, the plant can process up to 150 million cubic feet a day of natural gas. A smaller plant was built near Bartlesville.

In 1982 the company also started up a new plant west of Bartlesville, Okla., with a capacity of 15 million cubic feet a day, and another new plant at Okarche, Okla., with a capacity of 150 million cubic feet a day.

In late 1982, the company sold the Greenwood, Kan., helium plant, which became unprofitable as a result of declining volumes and rising costs for natural gas. These factors were not offset by compensating price increases for helium and the natural gas liquids extracted at the plant.

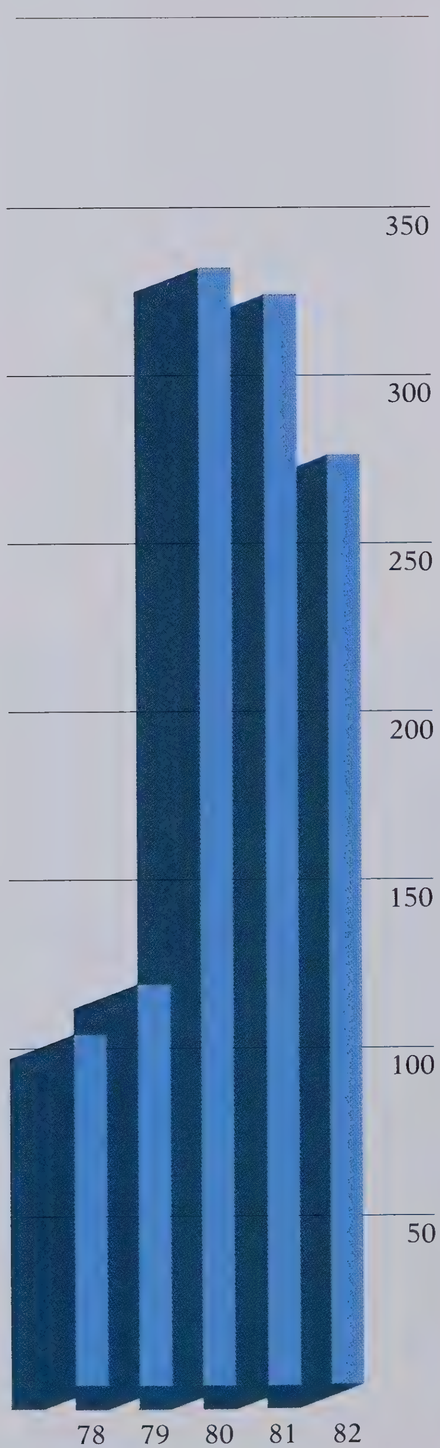
At the end of the year, Phillips wholly or jointly owned 60 natural gas liquids extraction plants, all of them located in the United States.

Phillips recently extended its contracts to deliver liquefied natural gas from Alaska to two utility companies located in Japan. Necessary export approval was obtained late in 1982 so that deliveries can continue through May 31, 1989. Phillips has a 70-percent interest in the sale, which amounts to a net 35 billion cubic feet a year of liquefied natural gas. The Kenai, Alaska, plant is the only one in the United States that exports liquefied natural gas overseas.

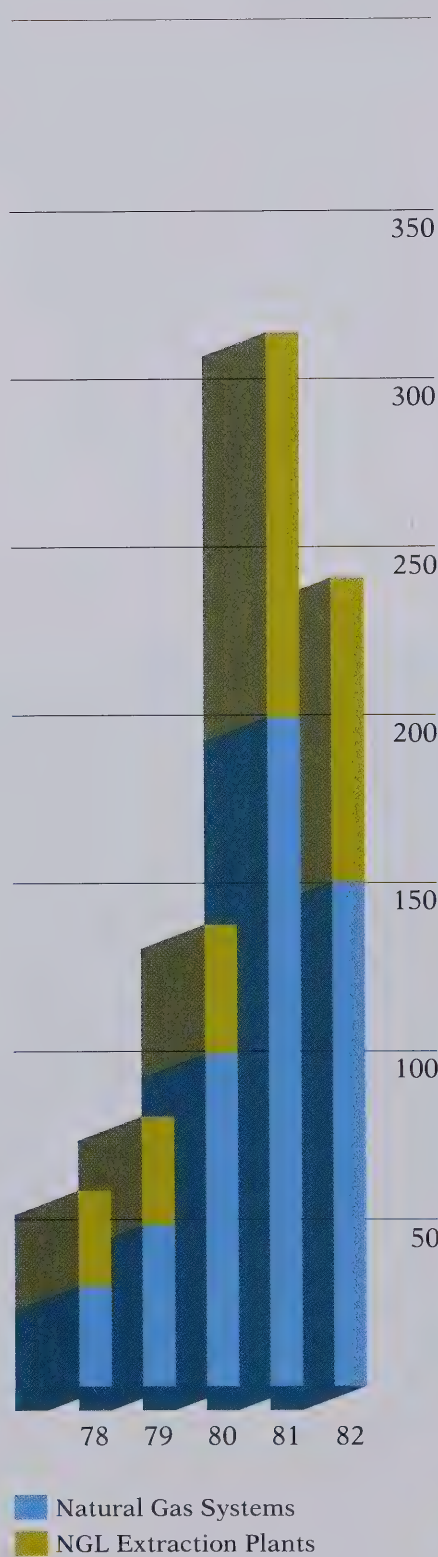


Gas and Gas Liquids Statistics

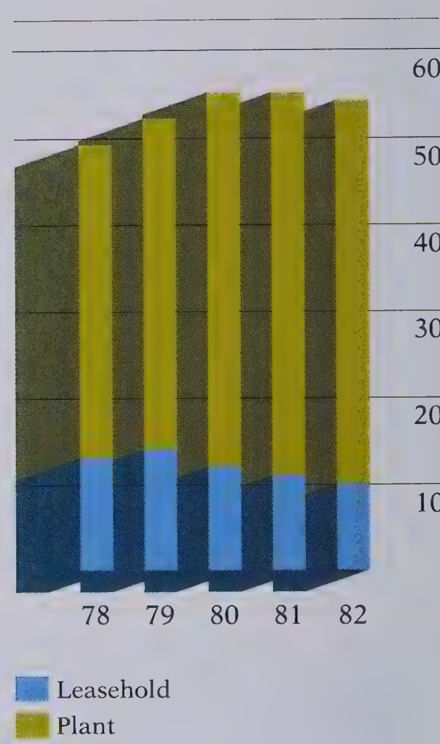
Net Income
(Millions of Dollars)



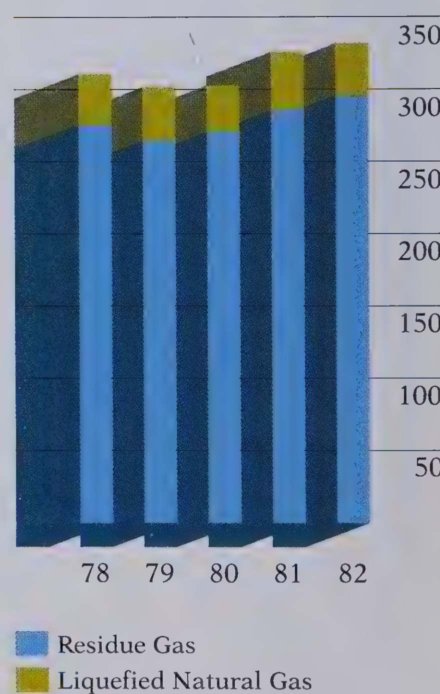
Capital Expenditures
(Millions of Dollars)



U.S. Net NGL Production
(Millions of Barrels)



U.S. Natural Gas Sales
(Billions of Cubic Feet)



Minerals

Phillips has a strong reserve position in various alternate energy resources, including coal, geothermal, oil shale and uranium.

Coal

Phillips first production of lignite is tentatively scheduled for 1987, instead of 1985, with deliveries to a Louisiana electric utility plant. Initial production has been rescheduled because of delays in the utility's financing program. Construction of the company's first lignite mine, to be located in northwest Louisiana, could begin sometime in late 1984.

In 1982 a sample of the company's Texas lignite was successfully gasified in a large commercial plant. A feasibility study is now under way that could lead to the eventual construction of a commercial-size gasification plant and mine in northeast Texas.

In order to broaden its reserve base, in 1982 the company purchased leases with approximately 350 million tons of coal in place in the Powder River Basin of Wyoming.

Geothermal

In 1982 Phillips moved ahead to make geothermal a commercial alternate energy venture. Sales of steam are scheduled to start in 1984 from a geothermal discovery at Roosevelt Hot Springs near Milford, Utah. A Utah utility is now building generating facilities at the site. Phillips is evaluating four other geothermal discoveries located in Nevada and California.

Oil Shale

Phillips has a one-third interest in the White River Shale Oil Project in northeast Utah. A phased development program could lead to initial production by the late 1980s. The company has licensed retorting technology for the White River Project. This gives the company the opportunity to have on-site observation of a Colorado oil shale project, considered the most advanced of its type under way.

Uranium

Phillips uranium mine in New Mexico, which was placed on standby in 1981, remained in that status as a result of continuing depressed demand for uranium.

Work is under way in Utah to bring this Phillips geothermal discovery into full-scale commercial production in 1984.

Petroleum Products

Earnings from petroleum refining, marketing and transportation operations increased in 1982. Net income was $65 million, compared with $25 million in 1981. Earnings in 1982 were adversely affected by a $44 million write-down of the Kansas City, Kan., refinery. Equity in earnings from affiliated companies related to Petroleum Products was $8 million in 1982, compared with $18 million reported in 1981.

Relatively lower raw material costs and inventory liquidations were the key contributors to the earnings improvement. These factors were brought about by operating efficiencies at the company's modernized Sweeny, Texas, refinery and by a reduction in both crude oil and product inventories.

After experiencing a slump early in the year, Phillips sales of gasoline and distillates rebounded in the second quarter. Aviation products sales were up in 1982. Propane sales volumes were strong throughout the year, and prices rose significantly. Overall the company increased 1982 sales of all petroleum products 3 percent, while total industry demand fell 5 percent below 1981 levels.

During the year, the company streamlined its U.S. operations to cope with an increasingly competitive market. The major action was the August closing of the Kansas City refinery, which had a capacity of 80,000 barrels a day. The company continues to supply the area served by the Kansas City facility through its two larger, more modern refineries in Texas as well as through its extensive Midwest distribution system.

The overall upgrading of the company's petroleum products operations also included the installation of new equipment at the Borger, Texas, refinery to give the refinery the capability to run less expensive, high-sulfur crude oils. The company also took actions to cut its marketing costs through terminal pricing on branded gasoline and by instituting a processing fee to recover a portion of its credit card operating costs.

Feedstock Supplies
Crude runs at Phillips

Welds are sanded on a crude oil storage tank at the company's Borger, Texas, refinery. The refinery has been modernized to process less expensive, high-sulfur crude oils. These crudes are among the world's most plentiful.

refineries were reduced slightly, mainly as a result of closing the Kansas City facility. The closing also permitted a substantial reduction in crude oil inventories. The percentage of U.S. crude oil used in Phillips refineries increased during the year. U.S. crude oil accounted for 86 percent of crude runs, compared with 73 percent a year earlier.

Natural gas liquids accounted for 39 percent of Phillips total refinery runs, compared with 36 percent in 1981. Phillips is an industry leader in upgrading natural gas liquids into gasoline.

Transportation
Reduced demand for crude oil continued to impact Phillips marine activities adversely and led to further streamlining of these operations.

The company sold two older tankers and laid up a very large crude carrier, pending renewed demand for crude oil transportation. Another very large crude carrier, *Phillips Enterprise*, was modified to serve as a storage vessel for crude oil from offshore the Republic of Ivory Coast, where the company began production during the year.

Refining
Phillips shut down its Kansas

High atop the Borger refinery, these construction workers help complete a $400 million modernization program. Since 1977 Phillips has invested approximately $1 billion to modernize its two largest refineries at Borger and Sweeny, Texas. The modernized Sweeny refinery processed 71 percent sour crude in 1982, compared with 28 percent in 1981.

City refinery in response to declining demand for petroleum products and the ability of the company to serve Midwestern markets more efficiently through its larger, better equipped refineries at Borger and Sweeny.

The company's modernization of its Borger refinery largely involves the construction of an atmospheric residual desulfurization unit, which will allow the refinery to process lower cost, heavier crude oils with high sulfur content. Construction of major units was mechanically completed in late 1982.

The modernized and expanded Sweeny refinery completed a full year of operation with increased utilization of high-sulfur crude and improved product yields. The Sweeny refinery processed 71 percent sour crude in 1982. This was up from the 28-percent level of a year earlier.

Also at Sweeny, a new unit for production of methyl-tertiary butyl ether, a high-performance additive for gasoline, was placed on stream in the fourth quarter. The new unit, which uses a Phillips-developed process, allows increased production of premium unleaded gasoline.

The company completed a new four-million-barrel-capacity hydrogen cavern and pipeline system at the Clemens Terminal near Sweeny to increase the refinery's flexibility and efficiency in using large amounts of byproduct hydrogen, a key raw material in producing high-

This Phillips station in Salt Lake City is typical of a growing trend toward one-stop shopping at service stations. Here, motorists can fill their cars, have them washed and buy groceries at one convenient location.

quality fuels and chemicals from high-sulfur crude oils.

The company's refineries in 1982 operated at 81 percent of rated crude oil capacity. This compares with the industry average of about 70 percent.

Natural gas liquids processed at the Borger and Sweeny refineries and through a joint-interest fractionation facility at Conway, Kan., averaged 179,000 barrels a day. Overall, natural gas liquids runs increased 7 percent, compared with 1981.

The cost of crude oil delivered to Phillips U.S. refineries averaged $33.13 a barrel in 1982. This was 10 percent lower than in 1981. The decrease was the result of lower world oil prices and the increased use of lower cost, high-sulfur crude oils at the Sweeny refinery. The cost of natural gas liquids to Phillips refineries decreased 6 percent in 1982 to $17.32 a barrel.

Marketing

Phillips sales volumes were 3 percent higher for automotive gasoline and about the same for distillates in 1982, compared with 1981.

Phillips average wholesale prices at the end of 1982 were 13 cents a gallon lower for automotive gasoline and 11 cents a gallon lower for distillates, compared with the end of 1981. Margins improved slightly as a result of processing lower cost crude oils.

Because of increased demand, the company extended sales of premium unleaded gasoline to 16 states located within its 35-state marketing area.

Early in the year, Phillips initiated a policy of terminal pricing on branded gasoline. Terminal pricing means setting one price at each terminal for a given class of trade, rather than pricing on a delivered basis.

In September Phillips instituted a 3 percent processing fee on credit card invoices submitted to the company by jobbers (independent wholesalers) and dealers. Jobbers and dealers represent 92 percent of all Phillips motor fuel sales. The processing fee action was taken to minimize the rising costs of credit card operations.

Phillips continued to market a full line of petroleum lubricants after the closing of its lubricants plant at the Kansas City refinery. The manufacture of quality lubricants at four outside facilities combined with distribution from nine new supply points are expected to maintain the company's long-standing strength in lubricating oil markets.

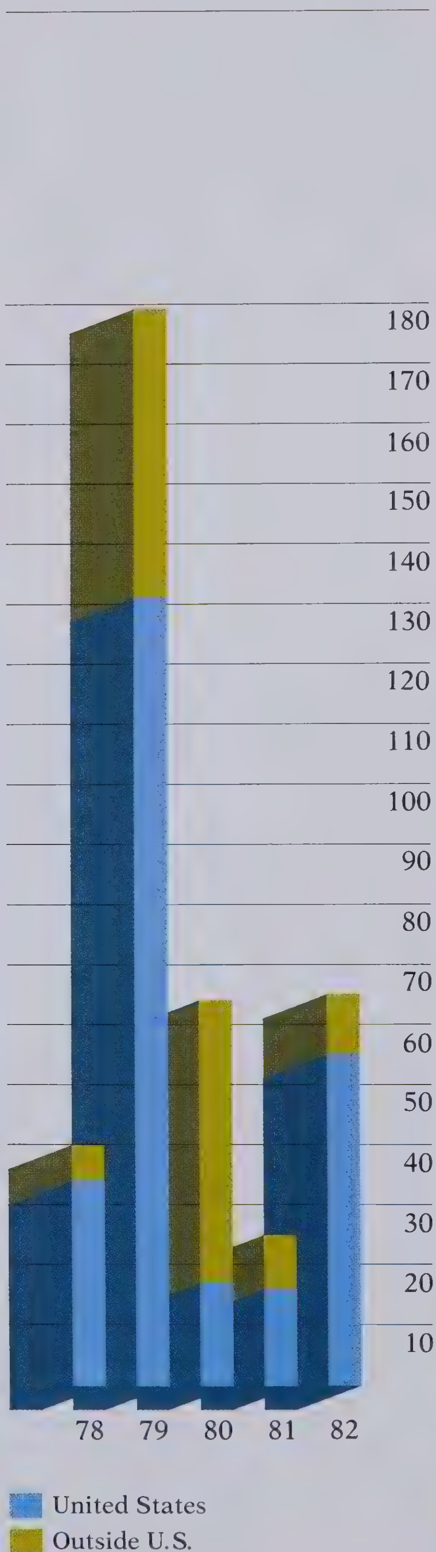
Sales of aviation fuels increased 28 percent from 1981, maintaining Phillips as a leading supplier of aviation gasoline and turbine fuel.

Phillips increased its propane market to 10 percent of total U.S. sales during the year. The company sold higher volumes to industrial customers and to jobbers and dealers who market propane for rural heating and crop drying purposes.

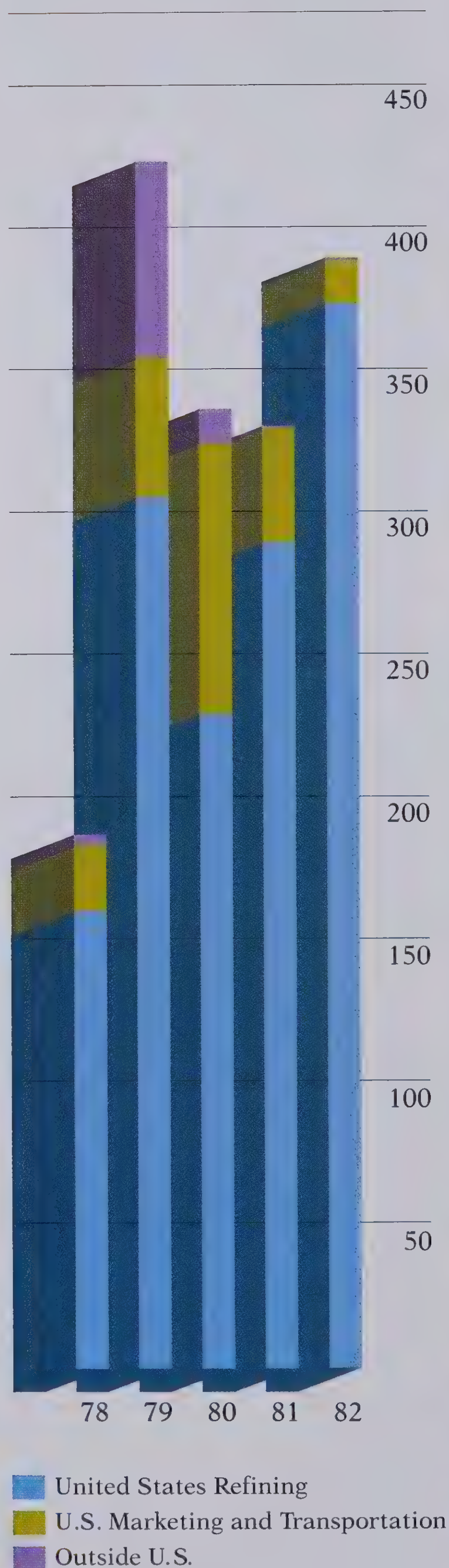
This vapor recovery unit at the company's East St. Louis, Ill., terminal conserves energy by capturing vapors that otherwise escape into the atmosphere when trucks are loaded with fuel. The unit not only conserves energy but is an environmental safeguard as well.

Petroleum Products Statistics

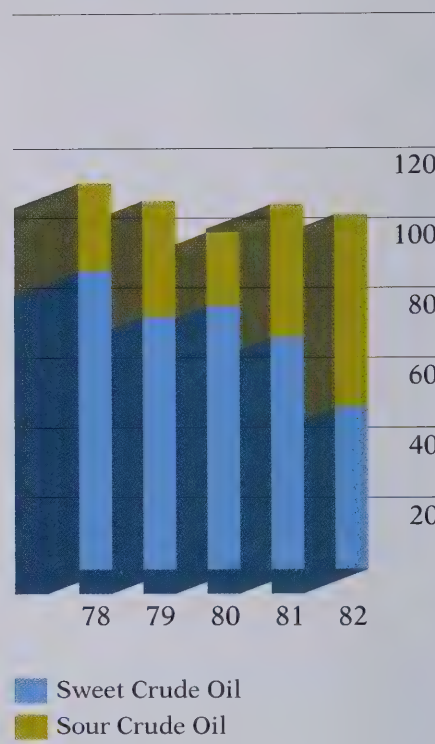
Net Income
(Millions of Dollars)



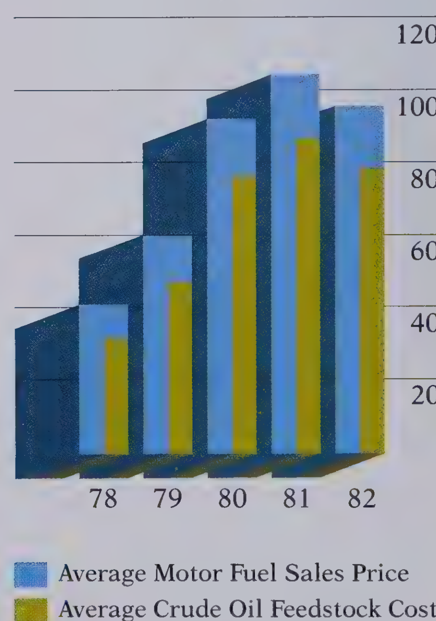
Capital Expenditures
(Millions of Dollars)



Refinery Crude Oil Runs—Sweet to Sour
(Millions of Barrels)



Crude Oil Feedstock Cost to Motor Fuel Sales Price
(Cents per Gallon)



Feedstocks Processed and Products Produced

	Average Percent 1982	1981
Feedstocks		
Domestic crude oil	**52%**	45
Imported crude oil	**8**	17
Natural gas liquids	**39**	36
Miscellaneous hydrocarbons	**1**	2
	100%	100
Output		
Automotive gasoline	**37%**	37
Chemical feedstocks	**12**	12
Distillates	**22**	20
Consumer LPG	**16**	16
Other products	**13**	15
	100%	100

Average Cost of Refinery Feedstocks

	Per Barrel 1982	1981
Crude oil	**$33.13**	36.74
Natural gas liquids	**17.32**	18.39

Refinery Crude Oil and Natural Gas Liquids Capacities and Runs—Average Barrels Daily

	Crude Oil		Natural Gas Liquids	
	Capacity	Runs	Capacity	Runs
1982				
Sweeny, Texas	**175,000**	**145,000**	**81,000**	**70,000**
Borger, Texas	**95,000**	**78,000**	**105,000**	**91,000**
Kansas City, Kansas(1)	**80,000**	**31,000**	**—**	**—**
Woods Cross, Utah	**24,000**	**23,000**	**—**	**—**
Conway, Kansas	**—**	**—**	**42,000**	**18,000**
	374,000	**277,000**	**228,000**	**179,000**
1981				
Sweeny, Texas	175,000	116,000	81,000	69,000
Borger, Texas	95,000	84,000	105,000	96,000
Kansas City, Kansas	80,000	58,000	—	—
Woods Cross, Utah	24,000	22,000	—	—
Great Falls, Montana(2)	6,000	5,000	—	—
Conway, Kansas(3)	—	—	42,000	2,000
	380,000	285,000	228,000	167,000

(1) Closed August 1, 1982.
(2) Sold January 4, 1982.
(3) Acquired April 1, 1981.

The worldwide economic recession continued to affect the chemical industry. Phillips profit margins were generally lower in most product lines. Lower sales prices and volumes for cyclics and rubber chemicals and lower prices for olefins reduced earnings. This was offset somewhat by improvements in plastics, which had lower feedstock costs, higher sales volumes and operating efficiencies.

Net income for Chemicals in 1982 was $14 million, compared with $90 million in 1981. Earnings in 1982 were adversely affected by a nonrecurring provision of $42 million to cover anticipated losses from the sale or shutdown of various operations. An additional $19 million was realized from equity in earnings from affiliated companies related to Chemicals. This compares with $25 million in 1981.

Basic Petrochemicals and Specialty Chemicals

Sales of olefins, which are key feedstocks in the manufacture of plastics, increased in 1982. However, overcapacity in the industry contributed to lower profit margins for the company's ethylene business. Cyclics, of which Phillips is a leading producer, were particularly weak because of the continuing decline in demand for fibers that are used in home furnishings and apparel. Demand for cyclohexane, a key feedstock in the manufacture of nylon, was down substantially from a year ago. Paraxylene sales were up slightly due to higher exports. However, prices declined mainly because of weak demand for polyester.

Phillips Puerto Rico Core Inc. petrochemical complex at Guayama operated at 94-percent capacity, compared with 90 percent in 1981. The facility produces a variety of petrochemical products and motor fuel from naphtha.

High-purity normal pentane facilities will be completed in 1983 at Phillips Sweeny, Texas, refinery and will more than double the company's production capacity of this product. Normal pentane is used primarily in the manufacture of food packaging materials.

The decline in oil and gas drilling activity reduced demand for the company's drilling mud additives. The market for the company's enhanced oil recovery chemicals also was depressed.

The company established the Catalyst Resources, Inc., subsidiary after acquiring the Dart/Kraft catalyst division in 1982. The new subsidiary will produce and market catalysts that are used in olefin polymerization processes.

Phillips entered the mining chemicals business in 1982 by forming a new organization to market mineral-processing chemical products.

Plastics

Lower feedstock costs helped improve margins for plastic resins. Revenues were 7 percent higher than in 1981.

The company's polyethylene plastic pipe entered a new market in 1982 as a protective liner for metal pipes carrying caustic, high-pressure materials. Near Borger, Texas, these workers insert the company's Driscopipe inside a pipeline that is carrying highly corrosive gases.

Sales volumes of Marlex polyethylene were above 1981 levels. The use of a new high-productivity catalyst improved quality and contributed to higher sales of polypropylene.

A major capacity expansion in the Ryton polyphenylene sulfide resin plant in Borger, Texas, was completed to meet growing demand for this engineering plastic.

Sales volumes of K-Resin were 18 percent higher in 1982. This butadiene styrene polymer had new applications in the medical market and continued to be a popular packaging material.

Fibers

Revenues for Phillips Fibers Corporation were about the same as in 1981. Sales of nonwoven industrial fabrics for asphalt reinforcement and soil stabilization improved. Two new industrial fabrics were introduced in 1982: Rufon, a coated membrane for flat roofing applications, and Petrotac, a self-adhesive product used for highway reconditioning.

Rubber Chemicals

Weakness in the automotive industry resulted in continued low demand for carbon black and synthetic rubber worldwide. At the end of the year, the company was negotiating the sale of its Colombian carbon black plant and had permanently shut down its Solprene rubber business at Borger.

The recession had a positive effect on the tire retreading

Containers filled with catalyst are made ready for shipping from the Catalyst Resources, Inc., manufacturing facility near Houston. The new catalyst subsidiary was formed by Phillips in 1982.

market, and sales volumes for Philprene rubber improved in this market.

A joint-interest rubber plant near Tampico, Mexico, began commercial production during the year.

Consumer Products
Revenues were down for Phillips Driscopipe, Inc. The drop in oil and gas drilling activity in the United States severely affected sales to the petroleum industry, a key market for polyethylene pipe.

Revenues for H.P. Smith Paper Co. were slightly less than in 1981. Expansion of the Iowa City, Iowa, plant was completed in 1982. When modifications in producing Poly Slik release paper are completed in 1983, capacity will increase 25 percent.

Earnings for Interplastic Corporation improved over 1981. The subsidiary makes unsaturated polyester resins for reinforced plastics.

The color concentrate business of American Thermoplastics Corporation in Calumet City, Ill., was sold during the year. The subsidiary's Houston plant continues to compound resins for pipe, engineering plastics and other applications.

Employees of Phillips Products Co., Inc., purchased the subsidiary's two plants, which manufactured injection-molded plastic products.

Wall Tube & Metal Products Co. was also sold during the year. This subsidiary made recreational furniture, fabricated metal components and stainless steel tubing.

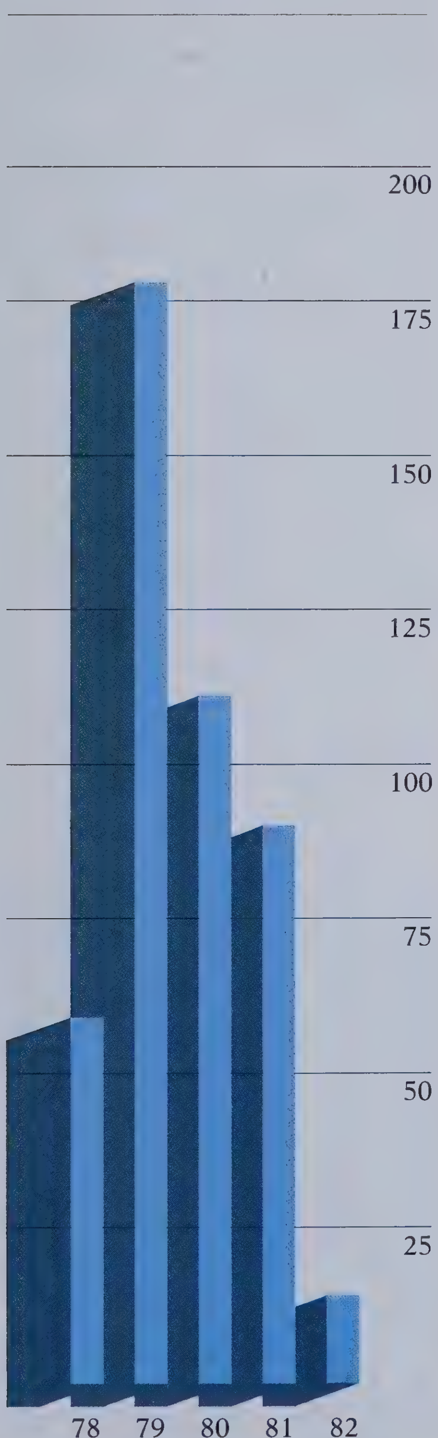
Sealright Co., Inc., which manufactures dairy and food packaging materials, was also sold during the year to a group of Sealright employees and other investors.

Fertilizer
U.S. revenues were lower for the fertilizer business, because of lower sales prices and volumes. However, total revenues were up because of sales in foreign markets. Phillips ammonium nitrate plant in Dumas, Texas, and liquid fertilizer plant in Katy, Texas, were closed because they were no longer profitable. The closing of the Dumas plant removed Phillips from the explosives market.

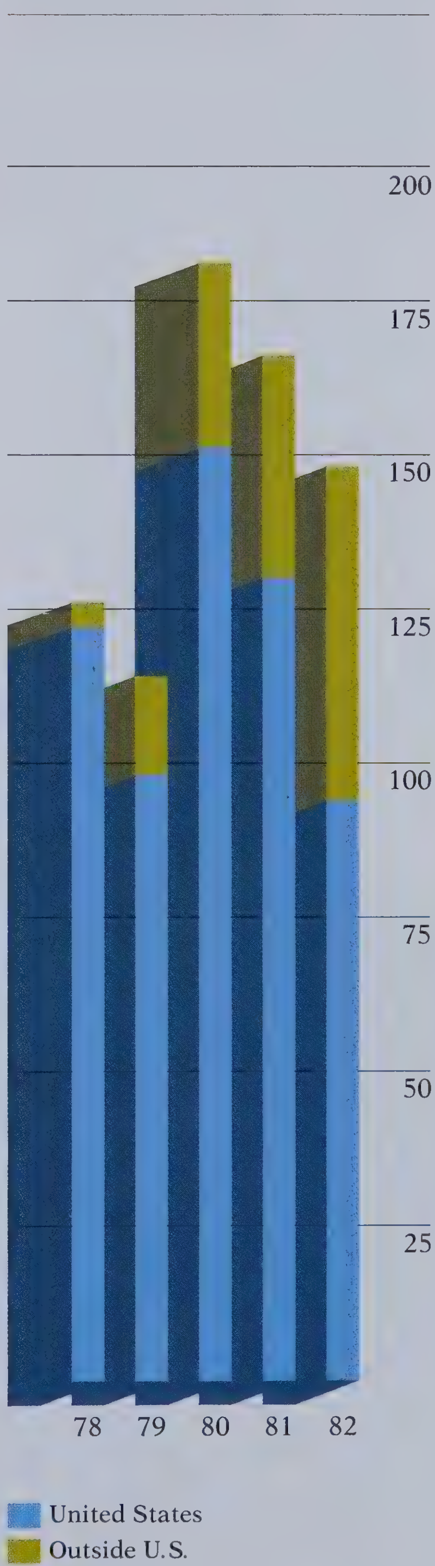
Construction is under way at this new high-density polyethylene plant located in Singapore. The plant is expected to be completed in late 1983. During the year, an expansion was completed at a high-density polyethylene plant located in Belgium in which Phillips has an interest.

Chemicals Statistics

Net Income
(Millions of Dollars)



Capital Expenditures
(Millions of Dollars)



Principal Chemicals Plants or Expansions Completed in 1982

Polyphenylene sulfide: Borger, Texas; 100% Phillips interest; 500,000 pounds additional gross annual capacity.

Toluene: Sweeny, Texas; 100% Phillips interest; 17,750,000 gallons additional gross annual capacity.

Mixed xylenes: Sweeny, Texas; 100% Phillips interest; 37,000,000 gallons additional gross annual capacity.

Synthetic rubber[1]: Tampico, Mexico; 39% Phillips interest; 55,000,000 pounds additional gross annual capacity.

High-density polyethylene: Antwerp, Belgium; 50% Phillips interest; 187,000,000 pounds additional gross annual capacity.

Principal Chemicals Plants or Expansions Under Construction Or Authorized at Year-End

High-density polyethylene[1]: Singapore; 60% Phillips interest; 176,000,000 pounds additional gross annual capacity.

High-density polyethylene: Tarragona, Spain; 45% Phillips interest; 132,000,000 pounds additional gross annual capacity.

Polyphenylene sulfide: Borger, Texas; 100% Phillips interest; 2,500,000 pounds additional gross annual capacity.

Soltex[2]: Conroe, Texas; 100% Phillips interest; 18,000,000 pounds additional gross annual capacity.

Aluminum citrate[1]: Shidler, Okla.; 100% Phillips interest; 4,000,000 pounds additional gross annual capacity.

(1) New plant
(2) Purchase of existing plant

Phillips support of educational, cultural, youth, health and welfare and civic organizations, plus its graphic and design support for non-profit organizations, totaled $12 million in 1982.

Community Involvement
In 1982 Phillips completed a pledge of $1.5 million toward the construction of a Community Activity Center in Borger, Texas, where the company has extensive refining and petrochemical operations.

As national sponsor of U.S. swimming and diving, Phillips support enabled U.S. amateur athletes to compete in national and international events during the year, preparing them for the 1984 Olympics.

Educational Support
Phillips contributed approximately $6 million in 1982 in support of education.

A major undertaking during the year was a new film series funded by Phillips and designed to interest young people in studying mathematics. The film series, which is entitled "Challenge of the Unknown", will be distributed in 1984, along with related educational materials.

The company's two other film series, "American Enterprise" and "Search for Solutions", are being seen by three million students a month. At the end of 1982, about 122 million people had viewed the two film series. In order to make these film series more readily available, the company has granted permission for schools, libraries and colleges to videotape the film series at no charge.

In 1982 approximately $930,000 was donated to colleges and universities through the Matching Gift Plan. Under this plan, the company gives $2 for every $1 donated by an employee or retiree. The maximum gift that is matched is $5,000.

Environmental Protection
In 1982 Phillips approved capital expenditures of $69 million to protect and improve the environment. In addition, $163 million was spent during the year to operate and maintain existing environmental control systems, about the same as in 1981. Major projects included the installation of noise-abatement facilities at a natural gas liquids extraction plant, the addition of wastewater treatment facilities at a refinery and a new, environmentally safe incinerator at the company's research center.

Energy Conservation
Since 1973 Phillips has saved enough energy to operate all company facilities for almost two years. During 1982 the equivalent of 1.3 million barrels of oil were saved through more energy-efficient equipment and processing. Major improvements occurred in the reduction of fuel for natural gas reinjection at the Greater Ekofisk Development in the Norwegian North Sea, the installation of more energy-efficient generators and better energy efficiency in U.S. chemical plants.

Wm. C. Douce awards top amateur Tracy Caulkins her 40th national title at the 1982 National Long Course Swimming Championship.

People

Economic conditions forced Phillips to reduce its work force in 1982. This was the result of closing or selling facilities, scaling back certain operations and normal attrition.

Employment
At the end of 1982, about 29,600 people were working for Phillips, 14 percent less than a year ago. Minorities accounted for 14 percent of U.S. employees. Of 5,700 employees in other countries, 85 percent were citizens of the countries in which they were employed. Among women employed, Betty L. Crocker, an assistant secretary of the company, is the first woman officer.

Training
In an effort to improve employee skills and performance on present job assignments, the company continued its emphasis on training. In 1982 participation in training programs increased 11 percent over 1981.

Benefits
Phillips continued to improve employee benefits. Improvements in the Thrift Plan now permit greater company matching contributions and increased employee deposits.

Faced with conditions which necessitated layoffs, the company provided affected employees with pay benefits and extended medical insurance coverage.

Suggestion Plan
In 1982 the Suggestion Plan had first-year tangible savings exceeding $11 million, an all-time high. During the year, employees received more than $961,000 for their suggestions. Three suggestions received maximum awards of $25,000.

Safety
A focal point of Phillips safety program in 1982 was vehicle accident prevention. Accident rates for every one million miles driven were 7 percent below the frequency rate for 1981. The lost-workday cases were 6 percent lower in 1982, with a rate of 0.49 accidents per 200,000 employee hours that were worked.

Labor Relations
A five-day strike at the Greater Ekofisk Development in the Norwegian North Sea was the only work stoppage in 1982.

Toxicology specialists Debbie Bradfield, Marcia Smith and Carroll Kirwin arrange safety and health tests for chemical products.

Research and Development

Research and Development continues to direct its efforts toward improving the company's expertise in the areas of petroleum exploration and production, minerals, refining and chemicals. The company is continuing long-range research programs in nuclear fusion, biotechnology and synthetic fuels.

Energy Resources
Research in the area of energy resources is aimed at developing new technologies for the search for and development of oil, natural gas and alternate energy.

In 1982 Phillips researchers continued to develop new polymers to aid oil recovery and to analyze ongoing results from two polymer-flooding projects in the Burbank field in northeastern Oklahoma. Polymer flooding is a sophisticated form of enhanced oil recovery, which calls for injecting special chemicals into an oil field, followed by vast quantities of water. Successful early results during the year from a project covering 1,440 acres in the north unit of the Burbank field prompted a second project in the south unit. At the end of 1982, the oil-producing rates were double the rates prior to the initiation of the project.

Improved methods of obtaining and interpreting exploration seismic data were achieved during the year. One of the seismic methods, called induced polarization, involves injecting electrical current into the ground. This gives a more complete geological picture of the underground structure and thereby reduces the odds of drilling dry holes.

In the area of alternate energy, the company is working on various methods to turn lignite and oil shale into synthetic crude oil and natural gas. During the year, the company successfully completed a pilot program that uses a donor solvent process to turn lignite into synthetic crude oil. In addition, research is under way to turn lignite into an economical synthetic natural gas. Research is also being directed toward developing a retorting process to turn Eastern oil shale into synthetic crude oil. Phillips holds oil shale acreage in three Eastern states: Indiana, Kentucky and Ohio.

In a joint program with G A Technologies, Inc., Phillips researchers are pursuing the development of an improved nuclear fusion device to obtain a more compact, high-density energy source. During the year, modifications to an

Lab technician Kathy Parker prepares quality control tests used for single-cell protein yeast cells. Phillips-developed single-cell protein is a food supplement that can be used to raise the nutritional value of animal feeds and human foods.

experimental fusion device significantly increased the device's power input. The results of this experimental work offer the potential for more expedient development for generating fusion energy, compared with other approaches under study.

A research and development effort is under way in the solar area for making thin-film, amorphous silicon that is suitable for photovoltaic cells. Photovoltaic cells are used to generate electric power from sunlight.

In other areas of energy resources research, the company completed in 1982 a new exploration and production computing center for storing seismic data and other exploration and production information. Data can now be assessed more quickly and accurately.

Construction of an environmentally safe incinerator was also completed during the year at the company's research facilities. The incinerator will serve as a developmental test unit for evaluating incineration as a safe disposal method for wastes generated at Phillips plants and operations as well as for waste disposal at the company's research center.

Petroleum and Chemical Processing

Process research is aimed at developing new and improved technology for converting fossil fuel resources into marketable fuels and chemicals. An important aspect of this work is helping the company's operating groups solve plant operating problems and select appropriate catalysts and feedstocks. The company's researchers also provide technical service for the marketing of certain products.

In the area of petroleum processing, studies are under way to find the most efficient methods to refine heavy California crude oils, some of which have a high metal and sulfur content. Research also continues to be aimed at increasing the quality and yield of gasoline and diesel fuel from low-grade, heavy crude oils.

Another Phillips research project, begun in 1982, could have benefits for agriculture. The project uses synthetic pheromones made by a Phillips process. The pheromones interrupt the mating cycle of insects, thus decreasing their population and the damage they do to crops. Pheromones, which are harmless to people and the environment, are finding wide application in treating timber, cotton, fruits and vegetables.

Research in biotechnology is also continuing with the Salk Institute Biotechnology/Industrial Associates, Inc. One of these genetic engineering research projects involves studies of a Phillips-developed single-cell protein yeast. Single-cell protein yeast can be used as a food supplement for animals and humans, especially in the more under-developed areas of the world.

Wastes from laboratory research are disposed of in this newly installed prototype incinerator at the Phillips Research Center. The unit will test incineration as a future method of safe waste disposal for use at other company facilities.

Research and Development

Polymers and Materials
Phillips is expanding its research in developing new polymers. Important discoveries in 1982 have led to the development of new water-soluble polymers for use in enhanced oil recovery, drilling fluids and water treatment.

Phillips efforts in polymers are also directed toward developing new, highly sophisticated applications for established polymers. For example, major developments were made in 1982 to use Ryton engineering plastic in fibers, film and electrical applications. Ryton, developed by Phillips researchers, is a heat- and corrosion-resistant plastic that can be used to replace exotic metals when high production speed is required in manufacturing.

Researchers also developed a stampable thermoplastic material that needs no curing time, has great structural strength, high-speed manufacturing capability and wide application in such forms as high-performance composite materials. Phillips also is testing high-density polyethylene film material as a substitute for such paper products as grocery sacks.

Patents
Phillips has led the industry in U.S. patents issued in 13 of the last 15 years. In 1982, 458 U.S. and foreign patents were awarded the company, bringing Phillips total number of active patents to 7,524. The vigorous pursuit of patents results in substantial licensing income for the company.

Geophysicist Paul Hauge monitors a three-dimensional seismic program developed by Phillips. The program permits exploration data to be assessed more quickly and accurately than by conventional methods.

Financial Review

Oil and Gas Operations

Consistent with Financial Accounting Standards Board (FASB) Statement No. 69, "Disclosures about Oil and Gas Producing Activities," and in accordance with regulations of the Securities and Exchange Commission (SEC), the company is making certain disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that some of the data are necessarily imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. Accordingly, this information may not necessarily represent the present financial condition of the company or its expected future results.

Contents

Capital Resources and Liquidity

Financial Position

The consolidated balance sheet at December 31, 1982, presented below in a summarized financial position format and expressed in percentages is compared with the financial position of each of the three preceding years expressed in percentages.

During 1982 Phillips improved its working capital position to a positive $197 million from a deficit of $189 million which reversed the trend of declining working capital experienced since 1978. The working capital increase of $386 million was primarily due to the refinancing of short-term notes payable with long-term debt. The current cost of inventories at December 31, 1982, approximated $904 million more than the stated value of inventories determined under the last-in, first-out (LIFO) method. This excess is not reflected in working capital.

The working capital position at December 31, 1982, includes significant amounts of cash, time deposits and short-term investments ($793 million), and accrued taxes ($1,086 million). While most taxes are paid currently, the company makes semiannual income tax payments to Norway. In April 1983, a substantial portion of the cash items on hand at December 31, 1982, will be used to pay Norwegian income taxes accrued at year-end 1982.

Over the past three years, the company has invested $6.46 billion in properties, plants and equipment, paid dividends of $946 million to stockholders, made investments totaling $263 million (mainly in affiliated companies), retired debt of $181 million, and required $281 million for other purposes. These expenditures have been funded in substantial part by funds from operations of $5.80 billion or 71 percent of fund needs. To provide the balance of fund needs, the company increased long-term debt ($1.41 billion), drew down working capital ($511 million) and obtained funds from other sources ($410 million).

Capital Expenditures

Phillips worldwide operations are capital intensive, requiring significant expenditures over long construction periods. Capital expenditures for properties, plants and equipment totaled $2.13 billion in 1982, compared with $2.66 billion in 1981 and $1.67 billion in 1980. Capital expenditures for 1982 were 20 percent lower than the previous year, which included some $600 million for oil and gas leases offshore California. Over the past three years significant expenditures have been made to modernize and improve the feedstock processing flexibility of Phillips refineries. Geographically, during this period, three-fourths of capital expenditures have been made in the United States and one-fourth outside the United States. The capital expenditures for Petroleum Exploration and Production and Gas and Gas Liquids operations made up 65 percent of the total; Petroleum Refining, Marketing and Transportation operations—16 percent; Chemicals operations—8 percent; Minerals—3 percent; and Other—8 percent.

Phillips expects that capital expenditures for 1983, excluding the General American Oil Company of Texas purchase, will be 20 to 25 percent lower than 1982 expenditures of $2.13 billion. The majority of the expenditures will be directed toward assessing

Financial Position Summary

December 31	Millions of Dollars	Percentages			
	1982	**1982**	1981	1980	1979
Working capital	$ **197***	**2.1%**	(2.3)	8.7	12.1
Investments	**450**	**4.8**	6.4	5.5	4.7
Properties, plants and equipment (net)	**8,548**	**91.1**	94.0	84.2	81.8
Deferred charges	**190**	**2.0**	1.9	1.6	1.4
Total financial position assets	**9,385**	**100.0**	100.0	100.0	100.0
Long-term debt	**1,900**	**20.3**	12.8	10.4	11.1
Other liability items	**1,712**	**18.2**	18.9	16.3	16.0
	3,612	**38.5**	31.7	26.7	27.1
Stockholders' equity	**$5,773**	**61.5%**	68.3	73.3	72.9

**Working capital is current assets ($2,909 million) minus current liabilities ($2,712 million).*

undeveloped acreage, in development drilling, and on production facilities for proved reserves. Gas and Gas Liquids operations expenditures are expected to decrease, with emphasis on connecting new gas to existing facilities. Future capital expenditure project plans include: continued exploration and development of oil discoveries offshore California and offshore the Republic of Ivory Coast in West Africa, developing the Maureen field in the United Kingdom sector of the North Sea, and developing currently held coal reserves and geothermal energy resources.

Funds Availability

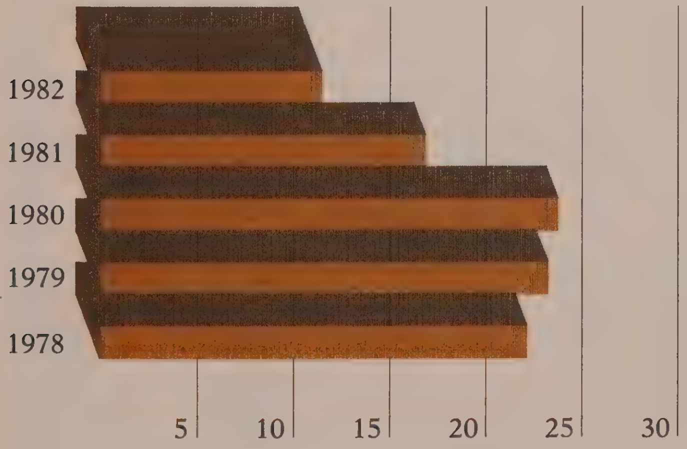
The company engaged in both short- and long-term financing during the year. The company issued commercial paper, and sold receivables to Phillips Petroleum Credit Corporation (Credit), a wholly-owned non-consolidated subsidiary, which also issued commercial paper. Commercial paper and other short-term debt outstanding at year-end was $152 million for the company and $294 million for Credit compared to $515 million and $390 million, respectively, at year-end 1981. Long-term debt increased in 1982 primarily due to a $200 million 14% Eurodollar note issue, $200 million of 12⅞% notes, $300 million of 12¼% debentures, and $229 million in borrowings under floating-rate credit facilities to finance U.K. exploration and development activities, including the development of the Maureen field. At December 31, 1982, an additional $211 million remained available for U.K. development under those facilities.

In January 1983, Phillips announced a merger with General American Oil Company of Texas, which became effective March 8, 1983. The funds required for this acquisition will be provided from internal sources and through the issuance of additional debt. Initially, the debt financing will be accomplished through the issuance of short-term notes, utilizing as support a portion of existing available credit lines. Depending on market conditions after the merger, Phillips anticipates replacing all or a portion of the funds required for the acquisition with medium- and/or long-term debt.

Management expects funds from operations to provide most of its near-term ongoing requirements. Deficiencies, if any, would be covered by borrowings in the public and private markets, maintaining a reasonable mix in its debt structure.

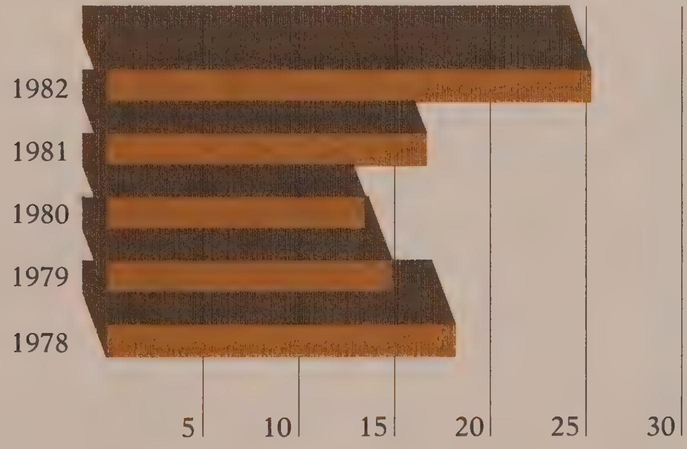
Due to the increased debt load and the General American acquisition, the company has utilized a substantial portion of its reserved borrowing capacity. Management believes the company will be able to handle foreseeable debt requirements and still maintain a strong financial position. During the past year, steps were taken to strengthen the company's financial position by eliminating unprofitable or marginally profitable businesses. Other actions taken included a reassessment of capital expenditure project opportunities, cutbacks on inventory levels, staff reductions, and the restructuring of a substantial

Return on Average Stockholders' Equity*



**Net income divided by average stockholders' equity.*

Percent of Debt to Capital*



**Debt divided by debt plus stockholders' equity. Debt is long-term debt plus obligations under capital leases.*

portion of short-term debt to longer term. Management expects to continue its emphasis on improving the efficiencies of company operations by allocating resources selectively and continuing its cost reduction program.

Results of Operations

Consolidated net income for 1982 of $646 million was down 27 percent from 1981 and down 40 percent from the record $1.07 billion earned in 1980.

Results for 1982 reflected lower worldwide production and prices of crude oil and natural gas liquids, increased exploration expenses, and a non-recurring provision of $93 million to cover anticipated losses from the sale, shutdown and curtailment of various petroleum and petrochemical operations, including a $44 million write-down of the Kansas City refinery which was shut down on August 1, 1982. Earnings were also adversely affected $65 million by higher casualty losses and reserves for future losses in the company's insurance affiliate. A reduction in LIFO inventories added $72 million to earnings in 1982, compared with $14 million in the previous year. Foreign currency translation gains increased earnings $61 million in 1982, including a $40 million gain due to the adoption of new foreign currency translation accounting procedures in 1982, compared with a gain of $42 million in 1981 and a loss of $17 million in 1980.

Phillips is a fully integrated oil company operating worldwide and its major operations—Petroleum Exploration and Production, Gas and Gas Liquids, Petroleum Refining, Marketing and Transportation, and Chemicals—have each contributed significantly to net income during the past five-year period.

The principal factors contributing favorably to net income during this period were overall improvements in sales prices for most products; increased production of petroleum liquids and natural gas, which reached highs in 1980 and 1979, respectively; and increased chemical sales volumes. In 1982 earnings continued to be impacted by increasingly higher exploration expenses, up 25 percent from the previous year, associated with the evaluation of undeveloped acreage. Continued depressed economic conditions in both the United States and abroad, plus the decline in demand for petroleum and chemical products coupled with related excess capacity in these operations, adversely impacted sales volumes, prices and profits.

Worldwide prices for crude oil, natural gas and natural gas liquids have escalated significantly in recent years. In January 1981, the remaining price controls on U.S. crude oil were lifted, which ended a phased decontrol program that began in 1979. After decontrol, U.S. crude oil prices rose briefly in 1981, but then began moving downward as forces of supply and demand took control in the marketplace. The decline in prices is continuing because of surplus crude oil supplies worldwide and the more recent disarray within OPEC. Increases in the prices for natural gas, which are still under U.S. price controls, reflect increases permitted under the Natural Gas Policy Act.

Average 1982 sales prices and percentage fluctuations from 1981 follow: U.S. crude oil, $29.06 per barrel, down 9 percent; Europe-Africa crude oil, $34.35 per barrel, down 10 percent; U.S. natural gas, $2.09 per thousand cubic feet, up 24 percent; Europe-Africa natural gas, $4.25 per thousand cubic feet, up 17 percent; U.S. natural gas liquids, $15.94 per barrel, down 7 percent; wholesale prices for automotive gasoline, $.95 per gallon, down 9 percent; and distillates, $.94 per gallon, down 6 percent.

Petroleum Exploration and Production

Phillips Petroleum Exploration and Production operations earnings for 1982 were $416 million compared with $430 million in 1981 and $536 million in 1980.

Net Income and Income Taxes

	Net Income		Income Taxes	
Year	Millions of Dollars	Percent Change from Prior Year	Millions of Dollars	Effective Tax Rate
1982	**$ 646**	**(27)%**	**$1,454**	**69%**
1981	879	(18)	1,792	67
1980	1,070	20	2,170	67
1979	891	24	1,245	58
1978	718	35	989	58

Domestic earnings declined to $331 million in 1982 compared with $351 million in 1981 and $255 million in 1980. The 6 percent decline in earnings from 1981 was primarily due to lower crude oil sales prices, substantially higher dry hole and leasehold impairment expenses, resulting from an intensified search for domestic hydrocarbons, and lower crude oil production volumes caused by normal field declines in production rates. Partly offsetting these negative factors were higher natural gas prices and lower crude oil excise taxes due to lower crude prices.

Earnings abroad, up slightly to $85 million in 1982 from $79 million in 1981, were substantially lower than the 1980 peak of $281 million. Earnings in 1982 improved due to higher foreign currency translation gains as a result of the strengthening of the U.S. dollar against the Norwegian krone, and the $32 million impact of an escalation in the price of natural gas from the Hewett fields in the United Kingdom retroactive to October 1, 1980. These improvements were largely offset by lower crude oil production from the Greater Ekofisk Development in the Norwegian North Sea and Indonesia, lower crude oil prices and higher dry hole costs.

Gas and Gas Liquids

Phillips Gas and Gas Liquids operations earnings for 1982 were $276 million, compared with $324 million in 1981 and $332 million in 1980. The $48 million decline from 1981 was primarily due to lower natural gas liquids sales prices, slightly lower domestic production volumes, and increased natural gas purchase costs. This decline was partly offset by higher average natural gas sales prices.

Petroleum Refining, Marketing and Transportation

Phillips Petroleum Refining, Marketing and Transportation operations earnings for 1982 were $65 million, compared with $25 million in 1981 and $64 million in 1980.

Excluding the effect of the $44 million write-down of the Kansas City refinery, earnings showed improvement. Lower refinery throughput costs and lower raw material costs were the key contributors to the earnings improvement, while increased sales volumes were also a factor. A drawdown of petroleum LIFO inventories added $64 million to earnings, an increase of $50 million over the previous year. Product prices were generally lower, reducing product margins.

Five-Year Summary of Net Income

Years Ended December 31	Millions of Dollars				
	1982	1981	1980	1979	1978
Petroleum Exploration and Production					
United States	**$331**	351	255	169	174
Outside United States	**85**	79	281	216	145
	416	430	536	385	319
Gas and Gas Liquids					
United States	**272**	328	327	114	103
Outside United States	**4**	(4)	5	5	1
	276	324	332	119	104
Petroleum Refining, Marketing and Transportation					
United States	**55**	16	17	131	34
Outside United States	**10**	9	47	48	6
	65	25	64	179	40
Worldwide Petroleum	**757**	779	932	683	463
Worldwide Chemicals	**14**	90	111	178	59
Minerals	**(55)**	(61)	(34)	(20)	(21)
Other (1)	**(70)**	71	61	50	217
	$646	879	1,070	891	718

(1) Other includes equity in earnings of affiliated companies and gains and losses from other corporate activities (including in 1978 net income of $170 million from sale of Pacific Petroleums Ltd. stock).

Exploratory Costs and Leasehold Impairment

	Millions of Dollars		
	1982	1981	1980
Geological and geophysical expenses	**$243**	275	184
Impairment of leasehold investments	**75**	40	94
Dry hole costs	**333**	202	185
Lease rentals	**16**	18	18
	$667	535	481

Chemicals
Earnings for Phillips Chemicals operations for 1982 were $14 million, compared with $90 million in 1981 and $111 million in 1980. Earnings for 1982 were adversely impacted by a non-recurring provision of $42 million to cover anticipated losses from the sale, shutdown and curtailment of various petrochemical operations. Sales prices for most chemical products declined more than raw material costs due to depressed economic conditions which continued to prevail throughout the world.

Two major strengths of the company's chemical business are that approximately two-thirds of the feedstock needs for chemical operations come from the company's own sources, and that the company has operating capability and flexibility for upgrading the raw materials. By eliminating several unprofitable or marginally profitable businesses in 1982, increased operating efficiencies will enhance earnings in future years.

Minerals
Minerals activities reflected losses—mainly from exploration, start-up, and development activities—of $55 million in 1982, compared with $61 million in 1981 and $34 million in 1980, as Phillips pursues opportunities for alternate fuels with its operations in lignite, geothermal and oil shale. In 1982 Phillips moved ahead to make geothermal a commercial alternate energy venture.

Other
Other operations reflected losses of $70 million in 1982, compared with earnings of $71 million in 1981 and $61 million in 1980. Included in Other are the operating results of Walton Insurance Limited and Phillips Petroleum Credit Corporation, equity in earnings of other affiliated companies, the results of all other corporate activities including interest earned on time deposits and short-term investments, and interest expense on borrowings.

Equity in earnings of affiliated companies declined $87 million, mainly due to a $65 million provision for casualty losses and increased reserves for future losses in the company's insurance affiliate, and lower foreign currency translation gains. Results for 1982 were also impacted by lower interest income caused by the decline in average interest rates, and higher interest expense because of increased debt obligations, partly offset by increased capitalization of interest expense.

Exploratory Costs and Leasehold Impairment
Over the past five years Phillips has charged against income a total of $2.32 billion to cover its worldwide exploration for petroleum reserves and to cover its search for alternate energy fuels in the United States, including lignite, geothermal, oil shale and uranium. Certain exploratory costs are expensed as incurred while others are capitalized or expensed depending upon the success or failure of the venture. A comparison of the components of exploratory costs and leasehold impairment for the last three years is shown above.

Provision for Income Taxes
After a substantial increase in 1980, the total provision for income taxes declined in 1981 and 1982, principally due to lower pretax foreign source income, offset partly by increased effective income tax rates for foreign operations. The effective income tax rates have continued to escalate, equaling 69 cents of each dollar of pretax income in 1982, as compared to 67 cents in 1981 and 58 cents in 1978.

In addition to income taxes, operating taxes paid by the company include the federal excise tax on U.S. crude oil, which, since its inception in 1980, has totaled $754 million, including $226 million in 1982.

Foreign Currency Translation
Effective January 1, 1982, the company changed its method for translation of foreign currency transactions and foreign currency financial statements to comply with Financial Accounting Standards Board Statement No. 52, "Foreign Currency Translation." The effects on the company's financial statements from the change are discussed in Accounting Policies, page 44,

and Note 1 of Notes to Financial Statements on page 45. The principal functional currency used to measure the company's foreign oil and gas operations is the U.S. dollar. Chemical operations in foreign countries use the local currency. The company's only significant economic foreign currency exposure is the Norwegian krone current tax liability which is managed by purchasing forward exchange contracts.

Changing Prices and the Effects of Inflation
Supplementary information concerning the impact of inflation is provided on pages 62 and 63.

Stock Prices and Dividends Per Share—Unaudited

	1982			1981		
	Stock Price		Dividends	Stock Price		Dividends
Quarter	High	Low		High	Low	
First	$40¾	27	.55	59½	43¾	.55
Second	33¾	28⅛	.55	47¼	34	.55
Third	30⅞	23½	.55	48⅛	35⅛	.55
Fourth	36⅜	28⅜	.55	45⅞	37⅛	.55
Number of Stockholders at January 31, 1983						122,951

Phillips common stock, the only class of voting securities, is traded primarily on the New York Stock Exchange.

Selected Quarterly Financial Data—Unaudited

	Millions of Dollars			
	Sales and Other Operating Revenues	Income before Income Taxes	Net Income	Net Income Per Share of Common Stock
1982				
First*	$ 3,728	570	192	1.26
Second*	3,953	555	146	.96
Third*	3,934	461	153	1.00
Fourth	4,083	514	155	1.01
	$15,698	2,100	646	4.23
1981				
First	$ 4,120	814	271	1.78
Second	3,971	654	230	1.51
Third	3,822	598	192	1.26
Fourth	4,053	605	186	1.23
	$15,966	2,671	879	5.78
1980				
First	$ 3,291	922	285	1.85
Second	3,153	858	215	1.41
Third	3,155	734	283	1.86
Fourth	3,778	726	287	1.89
	$13,377	3,240	1,070	7.01

**These amounts differ from what was reported quarterly due to restatement for adoption of FASB Statement No. 52 effective January 1, 1982. The effect of the change was immaterial except on third quarter net income and net income per share which increased $22 million and $.14, respectively.*

Selected Financial Data

	Millions of Dollars Except Per Share Amounts				
	1982	1981	1980	1979	1978
Sales and other operating revenues	**$15,698**	15,966	13,377	9,503	6,998
Total taxes charged to income	**1,931**	2,441	2,473	1,395	1,104
Net income	**646**	879	1,070	891	718*
Net income per share of common stock	**4.23**	5.78	7.01	5.77	4.66*
Total assets	**12,097**	11,264	9,844	8,519	6,834
Long-term obligations	**1,955**	1,100	773	745	797
Cash dividends declared per share of common stock	**2.20**	2.20	1.80	1.35	1.20

**Includes net income of $170 million or $1.10 per share from sale of Pacific Petroleums Ltd. stock.*

Effective January 1, 1982, the company changed its method of translating foreign financial statements to comply with FASB Statement No. 52, "Foreign Currency Translation." See Note 1 of Notes to Financial Statements on page 45. Prior years have not been restated.

Report of Certified Public Accountants

The Board of Directors and Stockholders
Phillips Petroleum Company

We have examined the accompanying consolidated balance sheets of Phillips Petroleum Company at December 31, 1982 and 1981, and the related consolidated statements of income and earnings employed in the business and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1982 and 1981, and the consolidated results of operations and changes in financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis during the period except for the change, with which we concur, in the method of accounting for foreign currency translation as described in Note 1.

Arthur Young & Company

Tulsa, Oklahoma
February 14, 1983

Consolidated Statements of Income and Earnings Employed in the Business

PHILLIPS PETROLEUM COMPANY

Years Ended December 31	Millions of Dollars		
	1982	1981	1980
Revenues			
Sales and other operating revenues	**$15,698**	15,966	13,377
Equity in earnings of affiliated companies	**10**	97	47
Other revenues	**184**	225	289
Total Revenues	**15,892**	16,288	13,713
Costs and Expenses			
Purchased crude oil and products	**9,121**	9,020	6,755
Production and operating expenses	**2,101**	2,104	1,849
Exploratory costs and leasehold impairment	**667**	535	481
Selling, general and administrative expenses	**500**	491	420
Depreciation, depletion, amortization and retirements	**700**	616	559
Taxes other than income taxes	**477**	649	303
Interest and expense on indebtedness	**226**	202	106
Total Costs and Expenses	**13,792**	13,617	10,473
Income before income taxes	**2,100**	2,671	3,240
Provision for income taxes	**1,454**	1,792	2,170
Net Income	**646**	879	1,070
Earnings Employed in the Business at Beginning of Year	**4,892**	4,348	3,553
Adjustment for change in accounting	**23**	—	—
Dividends declared and paid (1982—$2.20 a share; 1981—$2.20 a share; 1980—$1.80 a share)	**(336)**	(335)	(275)
Earnings Employed in the Business at End of Year	**$ 5,225**	4,892	4,348
Net Income Per Share of Common Stock	**$ 4.23**	5.78	7.01
Average Shares Outstanding (in thousands)	**152,711**	152,181	152,670

See accounting policies and notes to financial statements.

Consolidated Balance Sheets

At December 31	Millions of Dollars 1982	1981
Assets		
Current Assets		
Cash, including time deposits (1982—$664; 1981—$757)	$ 784	848
Short-term investments	9	47
Accounts and notes receivable (less allowances: 1982—$8; 1981—$8)	1,227	1,126
Inventories	759	883
Prepaid expenses and other current assets	130	144
Total Current Assets	2,909	3,048
Investments and Long-Term Receivables	450	512
Properties, Plants and Equipment (less depreciation, depletion and amortization)	8,548	7,548
Deferred Charges	190	156
Total Assets	$12,097	11,264
Liabilities		
Current Liabilities		
Accounts payable	$ 1,254	1,375
Notes payable	152	515
Long-term debt and obligations due within one year	41	41
Accrued income and other taxes	1,086	1,182
Other accruals	179	124
Total Current Liabilities	2,712	3,237
Long-Term Debt	1,900	1,031
Other Long-Term Liabilities	495	397
Obligations under Capital Leases	55	69
Accrued Contingent Liabilities	224	235
Deferred Income Taxes	838	710
Other Deferred Credits	63	77
Minority Interest in Consolidated Subsidiaries	37	27
Total Liabilities	6,324	5,783
Stockholders' Equity		
Common Stock ($1.25 par value)		
Shares authorized (200,000,000)		
Shares issued (154,449,429)	193	193
Capital in Excess of Par Value of Common Stock	492	511
Foreign Currency Translation Adjustments	(69)	—
Earnings Employed in the Business	5,225	4,892
	5,841	5,596
Treasury Stock (at cost) (1982—1,329,961 shares; 1981—2,268,217 shares)	(68)	(115)
Total Stockholders' Equity	5,773	5,481
Total Liabilities and Stockholders' Equity	$12,097	11,264

See accounting policies and notes to financial statements.

Consolidated Statements of Changes in Financial Position

Years Ended December 31	Millions of Dollars		
	1982	1981	1980
Funds Provided from Operations Consisted of			
Net income	**$ 646**	879	1,070
Non-cash items included in earnings, as follows:			
Depreciation, depletion, amortization and retirements	**700**	616	559
Dry hole costs and leasehold impairment	**408**	242	279
Other (primarily deferred taxes)	**165**	217	20
	1,919	1,954	1,928
While Funds Were Expended for			
Properties, plants and equipment	**2,132**	2,664	1,666
Investments	**18**	98	147
Reduction of long-term borrowings	**69**	46	66
Dividends to company stockholders	**336**	335	275
Purchase of company stock	**—**	—	115
Other	**87**	44	35
	2,642	3,187	2,304
Which Left a Deficiency of	**723**	1,233	376
Additional Funds Were Provided from			
Long-term borrowings	**939**	377	95
Property sales and retirements	**101**	44	88
Sale of investments	**9**	12	69
Sale of company stock	**28**	—	—
Other	**32**	22	5
	1,109	455	257
Which Resulted in Increased (Decreased) Working Capital of	**$ 386**	(778)	(119)

	1982	1981	1980
Working Capital Changes			
Increase (Decrease) in Current Assets			
Cash and short-term investments	**$ (102)**	(576)	172
Accounts and notes receivable	**101**	(296)	(9)
Inventories	**(124)**	187	92
Prepaid expenses and other current assets	**(14)**	39	53
(Increase) Decrease in Current Liabilities			
Accounts payable	**121**	(62)	(69)
Notes payable	**363**	(507)	10
Long-term debt and obligations due within one year	**—**	19	18
Taxes and other accruals	**41**	418	(386)
Increase (Decrease) in Working Capital	**$ 386**	(778)	(119)

See accounting policies and notes to financial statements.

Accounting Policies

Consolidation Principles and Investments—The consolidated financial statements include the accounts of companies owned more than 50 percent except for an insurance company and a credit company. Investments in these two companies, in companies owned 20 percent to 50 percent, inclusively, and in corporate joint ventures are accounted for using the equity method of accounting (affiliated companies). Investments in other companies are carried at cost.

Inventories—Crude oil, petroleum products, chemicals and merchandise are priced at cost, which is lower than market in the aggregate, mainly on the last-in, first-out (LIFO) basis. Materials and supplies are priced at or below average cost.

Oil and Gas Exploration and Development—Oil and gas exploration and development costs are accounted for using the successful efforts method of accounting.
Property Acquisition Costs—Oil and gas leasehold acquisition costs are capitalized. Leasehold impairment is recognized based upon unsuccessful exploratory experience. Upon discovery of commercial reserves, leasehold costs are transferred to producing properties.
Exploratory Costs—Geological and geophysical expenses and the costs of carrying and retaining undeveloped properties are charged against income as incurred. Exploratory drilling costs are capitalized when incurred. If exploratory wells are determined to be commercially unsuccessful (dry holes), applicable costs are expensed.
Development Costs—Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized.
Depletion—Leasehold costs of producing properties are depleted on the unit-of-production method based on estimated proved recoverable oil and gas reserves. Depletion of intangible development costs is based on the unit-of-production method using the estimated proved developed recoverable oil and gas reserves.

Depreciation and Amortization—Depreciation and amortization of properties, plants and equipment, including assets under capital leases, are determined by the group straight-line method, individual unit straight-line method and the unit-of-production method, applying the method considered most appropriate for each type of property.

Property Dispositions—When complete units of depreciable property are retired or sold, accumulated depreciation is reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are disposed of or retired, the difference between asset cost and salvage value is charged or credited to accumulated depreciation.

Non-Mineral Leases—Capital lease obligations are stated primarily at fair value at inception and accounted for as properties, plants and equipment and as obligations under capital leases.

Dismantlement Costs—The estimated costs, net of salvage values, of dismantling facilities are accrued currently, using the unit-of-production method and the straight-line method, applying the method considered most appropriate for each type of property.

Foreign Currency Translation—FASB Statement No. 52, "Foreign Currency Translation," was adopted by the company in 1982 and replaces FASB Statement No. 8, "Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements." Foreign currency accounting for 1981 and 1980 is in accordance with FASB Statement No. 8.

Under FASB Statement No. 52, each foreign entity's financial results are measured in the primary currency in which that entity conducts its business (referred to as its functional currency). Assets, liabilities and transactions denominated in currencies other than the entity's functional currency are remeasured into the functional currency using current exchange rates. Gains or losses resulting from this remeasurement are included in net income. Translation adjustments resulting from the process of translating foreign functional currency financial statements into U.S. dollars are taken directly to a separate component of stockholders' equity and do not affect current net income.

Retirement Income Plans—Current service costs and amortization of prior service costs for defined benefit plans covering U.S. employees are accrued based on actuarial studies. Prior service costs for the parent company plan are amortized over periods not exceeding 25 years in 1982 and 1981, and 10 years in 1980. For plans of subsidiary companies the amortization periods ranged from 40 years in 1982 to 20 years in 1981 and 1980. The majority of plans for employees outside the United States are fully insured and are accounted for on a cash basis.

Interest Costs—Interest costs relating to significant long-term capital projects are capitalized.

Income Taxes—Deferred taxes are provided for all significant timing differences in the recognition of revenues and expenses for tax and financial purposes. The allowable investment, energy and research and experimental tax credits are applied currently as reductions of the provision for income taxes. No provision for U.S. income taxes is made on undistributed earnings of certain companies and corporate joint ventures because of reinvestment plans for such funds.

Net Income Per Share—Net income per share of common stock is calculated based upon the daily weighted average of the number of shares outstanding during the year.

Notes to Financial Statements

Note 1—Foreign Currency Translation
Effective January 1, 1982, the company adopted FASB Statement No. 52. This change in method of translating a foreign entity's financial statements increased 1982 net income $40 million ($.26 per share). Stockholders' equity was reduced $69 million representing translation adjustments for certain foreign operations. Earnings employed in the business were increased $23 million as of January 1, 1982, representing the cumulative effect of remeasuring a foreign entity's deferred income taxes at current exchange rates.

Transaction gains and losses, net of income tax effects, computed in accordance with FASB Statement No. 52 increased earnings $61 million in 1982 of which $40 million is attributable to the change from FASB Statement No. 8. Foreign currency gains and losses increased earnings $42 million in 1981 and reduced earnings $17 million in 1980 with both of these years computed following FASB Statement No. 8. Prior year financial statements have not been restated since the effect in any one period is not material.

Foreign currency transaction gains and losses, other than those relating to income tax accounts, are included as appropriate either in equity in earnings of affiliated companies, or in costs and expenses. Income taxes applicable to such gains and losses and the gain or loss from remeasurement of income tax liabilities denominated in other than the functional currency are included in the provision for income taxes.

Note 2—Inventories
Inventories at December 31, consisted of the following:

	Millions of Dollars	
	1982	1981
Crude oil, petroleum products and chemicals	**$462**	577
Merchandise	**26**	25
	488	602
Materials and supplies	**271**	281
	$759	883

The cost of inventories calculated by the first-in, first-out method exceeded the stated value of inventories determined under the last-in, first-out method by approximately $904 and $1,102 million at December 31, 1982 and 1981, respectively. The reduction of certain LIFO inventory quantities increased net income $72 and $14 million in 1982 and 1981, respectively.

Note 3—Investments and Long-Term Receivables
Components of investments and long-term receivables at December 31, were as follows:

	Millions of Dollars	
	1982	1981
Investments in and advances to affiliated companies:		
Phillips Petroleum Credit Corporation	**$118**	107
Walton Insurance Limited	**29**	89
Companies owned 50 percent or less	**192**	229
Long-term receivables	**100**	76
Other investments	**11**	11
	$450	512

Earnings employed in the business at December 31, 1982, include $128 million relating to undistributed earnings of affiliated companies. Dividends received from affiliated companies were $47, $31 and $27 million in 1982, 1981 and 1980, respectively.

Phillips Petroleum Credit Corporation (Credit) purchases certain accounts receivable from Phillips with funds obtained from short-term borrowings. Walton Insurance Limited (Walton) participates in the international reinsurance business, including insuring certain Phillips risks. Summarized information relating to results of operations and to assets and liabilities for Credit, Walton and companies owned 50 percent or less, follows:

Summarized financial information for affiliated companies

	Millions of Dollars		
	1982	1981	1980
Credit			
Revenues	**$ 56**	60	2
Costs and expenses	**45**	48	2
Income before income taxes	**11**	12	—
Net income	**6**	7	—
Current assets	**412**	498	131
Other assets	**—**	—	2
Current liabilities	**294**	391	103
Walton			
Underwriting income:			
International reinsurance	**$ 97**	79	50
Phillips	**27**	21	21
Underwriting expense	**204**	122	67
Net underwriting (loss) income	**(80)**	(22)	4
Investment income	**19**	21	15
Net (loss) income	**(61)**	(1)	19
Cash, time deposits and marketable debt securities	**101**	109	104
Other assets	**106**	90	56
Provision for losses	**160**	78	52
Other liabilities	**19**	32	18
Companies owned 50 percent or less			
Revenues	**$3,988**	4,324	4,317
Costs and expenses	**3,661**	4,007	3,990
Income before income taxes	**327**	317	327
Net income	**245**	235	230
Current assets	**928**	1,201	1,433
Other assets	**3,038**	3,657	4,329
Current liabilities	**981**	1,193	1,323
Other liabilities	**2,476**	3,022	3,590

Note 4—Properties, Plants and Equipment

The company's investments in properties, plants and equipment (at cost) at December 31, are summarized as follows:

	Millions of Dollars	
	1982	1981
Energy Resources	**$ 7,925**	7,197
Petroleum Products	**2,607**	2,258
Chemicals	**1,487**	1,479
Other	**683**	480
	12,702	11,414
Accumulated depreciation, depletion and amortization	**4,154**	3,866
	$ 8,548	7,548
Assets under capital leases included above	**$ 159**	179
Accumulated amortization	**105**	113
	$ 54	66

Charges to income for maintenance and repairs were $417, $440 and $360 million in 1982, 1981 and 1980, respectively.

Note 5—Interest Costs

In 1982 and 1981, interest costs of $336 and $262 million, respectively, were incurred, of which $110 and $60 million were capitalized. The amount of interest capitalized in 1980 did not have a material effect on net income for that year.

Note 6—Debt

Short-Term

Short-term borrowings at December 31, 1982, consisted of commercial paper of $30 million and notes payable of $122 million, at a weighted average annual interest rate of 9 percent each. Short-term borrowings at December 31, 1981, of $515 million were primarily commercial paper with a weighted average annual interest rate of 12½ percent.

Long-Term

Long-term debt due after one year at December 31, consisted of the following:

	Millions of Dollars	
	1982	1981
14% Guaranteed Notes Due 1989	**$ 200**	—
12⅞% Notes Due September 1, 1992	**200**	—
12¼% Debentures Due 2012	**300**	—
8⅞% Debentures Due 2000	**227**	250
7⅝% Debentures Due 2001	**156**	176
5⅝% Marine Terminal Revenue Bonds, Series 1977 Due 2007	**20**	20
Notes payable to banks, insurance companies and others:		
At 13½%–15½% due through 1991	**220**	392
At 10%–13% due through 1993	**248**	72
At 9½%–9¹⁵⁄₁₆% due through 1993	**210**	—
At 5⅜%–9% due through 1991	**100**	99
Purchase obligations	**19**	22
	$1,900	1,031

Maturities of long-term debt in the years 1983 through 1987 are: $27, $33, $43, $153 and $111 million, respectively.

Arrangements existed at year-end 1982 for the company to borrow an additional $211 million for financing United Kingdom exploration and development activities, including development of the Maureen field, while related cumulative borrowings amounted to $489 million. Repayment will commence in 1983 and continue through 1993. Interest rates will change periodically over the life of the borrowings and will be based on the rate offered by prime banks in the London Interbank Market increased by an applicable margin.

Lines of Credit

The company and Phillips Petroleum Credit Corporation (Credit) have arranged with a group of international banks a $1 billion multicurrency revolving credit agreement, which extends through mid-1989, and two revolving credit agreements with other banks for $250 and $300 million each, which extend through mid-1990. These revolving credit agreements require commitment fees of less than ½ of 1 percent per annum on the unused portion of the credit lines. The company and Credit also have committed credit lines of $235 million which will be available through mid-1983. At December 31, 1982, approximately 19 percent of the total amount of these credit facilities was being used as support for issuance of commercial paper by the company and Credit or for other short-term borrowing arrangements.

Compensating Balances

The company maintains compensating balances under the agreements, noted above, for the $235 million of committed lines of credit. The company also maintains compensating balances for banking services under various arrangements with several banks. The compensating balances for banking services are not legally restricted as to withdrawal and are continually reviewed and adjusted based on levels of services and activity. The total of all compensating balances is not material in relation to total liquid assets.

Note 7—Other Long-Term Liabilities

Other long-term liabilities consist mainly of accrued liabilities for dismantling facilities, principally offshore exploration and production.

Note 8—Non-Mineral Leases

The company leases bulk and service stations, tankers, computers and other facilities and equipment under both capital and operating leases.

At December 31, 1982, future minimum rental payments due under noncancelable leases were as follows:

	Millions of Dollars	
	Capital Leases	Operating Leases
1983	$20	32
1984	16	24
1985	16	16
1986	11	11
1987	9	8
Remaining years	24	55
Total payments*	96	146
Less imputed interest	27	
Present value	69	
Amount included in current liabilities	14	
Obligations under capital leases	$55	

**Minimum payments have not been reduced by aggregate minimum sublease rentals due under noncancelable subleases of $10 million for capital leases and $5 million for operating leases.*

Operating lease rental expense for the years ended December 31, was as follows:

	Millions of Dollars		
	1982	1981	1980
Total rentals	**$92**	76	64
Less sublease rentals	**8**	9	11
Net rentals	**$84**	67	53

Note 9—Litigation and Contingent Liabilities

A number of legal proceedings are pending in various courts or agencies in which the company or a subsidiary appears as plaintiff or defendant, including civil class action suits filed by the states of Florida, California, Arizona, Oregon and Washington (all consolidated for pretrial procedures in the U.S. District Court at Los Angeles, California) against numerous petroleum companies, alleging extensive violations of the antitrust laws relating to the production and refining of crude oil, and the transportation and marketing of crude oil and refined products.

At December 31, 1982 and 1981, the company was contingently liable for $38 and $51 million, respectively, for obligations of affiliated companies and others. In addition, the company had contingent liabilities at both dates resulting from throughput agreements with pipeline and processing companies in which it holds stock interests. Under these agreements, Phillips may be required to provide any such company with additional funds through advances against future charges for the shipping or processing of petroleum liquids, natural gas and refined products.

While it is not possible at this time to establish the ultimate amount of liability with respect to contingent liabilities, including those related to legal proceedings, the company is of the opinion that the aggregate amount of any such liabilities for which provision has not been made will not have a material adverse effect on its financial position.

Note 10—Taxes

	Millions of Dollars		
	1982	1981	1980
Taxes other than income taxes			
Property	**$ 47**	49	40
Crude oil excise	**226**	409	119
Production	**114**	114	78
Payroll	**52**	46	39
Other	**38**	31	27
	477	649	303
Income taxes			
Federal			
Current	**24**	194	327
Deferred	**218**	176	71
Foreign			
Current	**1,213**	1,330	1,788
Deferred	**(38)**	54	(61)
State and local (current)	**37**	38	45
	1,454	1,792	2,170
Total taxes charged to income	**1,931**	2,441	2,473
Excise taxes collected on the sale of petroleum products and paid to taxing agencies	**125**	128	141
	$2,056	2,569	2,614

Deferred income taxes relating to timing differences were:

Excess of tax over financial depreciation	**$ 176**	149	97
Excess of intangible drilling and certain other costs over financial provisions	**38**	122	49
Financial provision for dismantlement	**(70)**	(78)	(92)
Capitalized interest, net of amortization	**51**	27	—
Other	**(15)**	10	(44)
	$ 180	230	10

The amounts of U.S. and outside U.S. income before income taxes and a reconciliation of tax at the federal statutory rate with the provision for income taxes follow:

	Millions of Dollars			Percent of Pretax Income		
	1982	1981	1980	**1982**	1981	1980
Income before income taxes:						
United States	**$ 769**	1,012	1,007	**36.6%**	37.9	31.1
Outside United States	**1,331**	1,659	2,233	**63.4**	62.1	68.9
	$2,100	2,671	3,240	**100.0%**	100.0	100.0
Federal statutory income tax	**$ 966**	1,229	1,490	**46.0%**	46.0	46.0
Foreign taxes in excess of federal statutory rate	**566**	669	756	**26.9**	25.0	23.3
Investment and energy tax credits	**(113)**	(87)	(80)	**(5.4)**	(3.2)	(2.4)
Other	**35**	(19)	4	**1.7**	(.7)	.1
	$1,454	1,792	2,170	**69.2%**	67.1	67.0

Deferred taxes have not been provided for the company's equity in undistributed earnings of certain companies and corporate joint ventures because of reinvestment plans for such funds. At December 31, 1982, 1981 and 1980, the aggregate of these funds was $245, $213 and $239 million, respectively, excluding amounts which if remitted would be expected to result in little or no tax because of available tax credits and other deductions.

The Internal Revenue Service has examined the company's U.S. income tax returns through 1969 and all deficiencies have been settled. The company is of the opinion that any adjustments made to the company's returns for subsequent years will not have a material effect on the financial position of the company.

Note 11—Stockholders' Equity

Changes in common stock, foreign currency translation adjustments and capital in excess of par value of common stock follow:

	Common Stock			Millions of Dollars	
	Shares Issued	Shares Held in Treasury	Shares Outstanding	Foreign Currency Translation Adjustments	Capital in Excess of Par Value of Common Stock
December 31, 1979	154,449,429	21,698	154,427,731		$511
Purchased for the treasury		2,250,176	(2,250,176)		
Issued under Incentive Compensation Plans		(2,677)	2,677		
December 31, 1980	154,449,429	2,269,197	152,180,232		511
Issued under Incentive Compensation Plans		(980)	980		
December 31, 1981	154,449,429	2,268,217	152,181,212		511
Cumulative foreign currency translation adjustments				$(33)	
Current period translation adjustments				(36)	
Treasury shares exchanged for debt		(937,145)	937,145		(19)
Issued under Incentive Compensation Plans		(1,111)	1,111		
December 31, 1982	**154,449,429**	**1,329,961**	**153,119,468**	**$(69)**	**$492**

Note 12—Retirement Income Plans

The parent company and its subsidiaries have defined benefit retirement plans covering substantially all employees. Pension costs for U.S. employee plans are accrued and funded based on actuarial studies. Total pension costs were $65, $77 and $96 million in 1982, 1981 and 1980, respectively. Changes in actuarial assumptions in 1982 (increases in the salary progression rate and the investment return rate) and extension of the amortization period for prior service costs in 1981 decreased pension plan costs by $25 and $36 million in 1982 and 1981, respectively. These decreases were partially offset by a $15 million increase in 1982 resulting primarily from higher compensation and a $16 million increase in 1981 due to plan amendments, higher compensation and more participation.

Accumulated benefits and net assets of plans for U.S. employees at January 1, are presented below:

	Millions of Dollars			
	Parent Company		Subsidiary Companies	
	1982	1981	**1982**	1981
Actuarial present value of accumulated plan benefits:				
Vested	**$ 673**	570	**37**	38
Nonvested	**102**	86	**1**	1
	$ 775	656	**38**	39
Net assets available for benefits	**$1,044**	967	**48**	48

The above actuarial present values of accumulated plan benefits were determined assuming an 8 percent rate of return for the parent company plan and, for plans of subsidiary companies, 7½ percent for 1982 and 6 percent for 1981. In determining these values, neither future years of service nor future salary increases were included.

However, for purposes of funding and pension cost accrual both factors were considered, and for the parent company plan, assumed rates of return were 8 and 6 percent for 1982 and 1981, respectively.

Note 13—Employee Stock Ownership Plan

The Employee Stock Ownership Plan provides company stock for eligible employees of Phillips Petroleum Company and certain subsidiaries. The plan is funded by additional investment tax credits available under the provisions of the Tax Reduction Act of 1975; therefore, the plan has no effect on net income. A tax credit of 1 percent is allowed for regular contributions and an additional tax credit of ½ of 1 percent is allowed for contributions which are matched by employee deposits.

Effective January 1, 1983, in accordance with the Economic Recovery Tax Act of 1981, employee deposits will no longer be allowed and the tax credit will be equal to a percentage of the aggregate compensation for all employees covered by the plan. These provisions of the 1981 Act are scheduled to apply through 1987.

Note 14—Incentive Compensation Plans

The Incentive Compensation Plan provides for awards to key employees in recognition of outstanding contributions to the company's success. Awards, as approved by the Board of Directors, may be in the form of cash or shares of the company's common stock and may not exceed a specified percent by which net income exceeds an expressed percent of borrowed and invested capital, as defined by the plan. Provisions of $5, $9 and $7 million were made against earnings in 1982, 1981 and 1980, respectively, in connection with the operation of the plan. The provisions were substantially less than the maximum permitted under the plan.

The Long-Term Incentive Compensation Plan provides for the granting of contingent awards to certain key employees as incentives to improve the company's long-term profitability and growth. The amount of awards to be paid is determined, at the close of each performance period (three or more years), on the basis of performance measurement criteria established by the Board of Directors at the beginning of the performance period. The amount charged against earnings and credited to a reserve in anticipation of awards which may become payable under the plan was $6 million in 1980. Application of the same performance criteria returned $1 and $2 million to income in 1982 and 1981, respectively.

Note 15—Research and Development Costs

Research and development costs charged to expense were $138, $118 and $84 million in 1982, 1981 and 1980, respectively.

Note 16—Acquisition of General American Oil Company of Texas

On January 7, 1983, Phillips and General American Oil Company of Texas (GAO) entered into a definitive merger agreement, as amended, under which a wholly-owned Phillips subsidiary, Phillips Oil Company (POC), would acquire in a $1.14 billion transaction the entire equity interest of the Dallas-based oil and gas exploration and production company which operates primarily in the offshore Texas and Louisiana areas, the Rocky Mountain area and the western provinces of Canada. On February 1, 1983, POC acquired approximately 49.5 percent of GAO's outstanding shares pursuant to purchase agreements with certain GAO stockholders. The merger is to be consummated on March 8, 1983.

Note 17—Segment and Geographic Information

The company is involved primarily in Petroleum and Chemicals operations. Petroleum operations are fully integrated and involve the discovery, production, transportation and refining of crude oil and natural gas together with the subsequent transportation and marketing of products derived therefrom. This segment also provides feedstock for the production of petrochemicals. Chemicals operations involve the manufacture and marketing of a broad range of petroleum-based chemical products including synthetic rubber, carbon black, plastics, fertilizers, synthetic fibers and other products. The Other segment includes Minerals and miscellaneous activities.

Segment and geographic information for 1982, 1981 and 1980 is presented on pages 53 and 54. A reconciliation to the financial statements follows:

	Millions of Dollars					
	Net Income			Total Assets		
	1982	1981	1980	**1982**	1981	1980
Operating profit	**$2,291**	2,762	3,246			
Identifiable assets				**10,480**	9,589	7,820
Equity in earnings and assets of affiliated companies	**10**	97	47	**338**	425	281
Other revenues/adjustments	**187**	177	184			
General corporate expenses, interest and income taxes	**(1,842)**	(2,157)	(2,407)			
Corporate assets				**1,279**	1,250	1,743
	$ 646	879	1,070	**12,097**	11,264	9,844
Return on average total assets	**5.3%**	8.2	11.5			

Sales and other operating revenues by business segment and by geographic area include both sales to customers outside the consolidated companies and sales within the consolidated companies which are generally at market value. In computing operating profit, none of the following items have been added or deducted: equity in earnings of affiliated companies, general corporate revenues and expenses, interest and income taxes. The company's share of assets and earnings of affiliated companies, which are vertically integrated with operations of the company, is not material.

Identifiable assets by business segment and geographic area are those assets that are used in the company's operations in each segment or area. Corporate assets are principally cash and short-term investments.

Intersegment and intergeographic sales and profits in inventory are eliminated in determining consolidated revenue and identifiable asset totals.

Analysis of Results by Business Segment

Years Ended December 31	Millions of Dollars		
	1982	1981	1980
Sales and Other Operating Revenues to Outside Customers			
Petroleum operations—United States	**$10,888**	10,568	8,747
Petroleum operations—outside United States	**2,402**	2,878	2,345
Chemicals	**2,356**	2,470	2,249
Other	**52**	50	36
	15,698	15,966	13,377
Sales within Phillips between Segments			
Petroleum operations—United States	**571**	726	634
Petroleum operations—outside United States	**430**	478	1,325
Chemicals	**254**	257	225
Other	**38**	36	29
	1,293	1,497	2,213
Eliminations (intersegment)	**(1,293)**	(1,497)	(2,213)
Total	**$15,698**	15,966	13,377
Operating Profit			
Petroleum operations—United States	**$ 1,147**	1,330	1,133
Petroleum operations—outside United States	**1,198**	1,397	2,021
Chemicals	**23**	140	162
Other	**(99)**	(104)	(61)
Eliminations (intersegment)	**22**	(1)	(9)
	$ 2,291	2,762	3,246
Net Income	**$ 646**	879	1,070
Assets Identifiable by Business Segment			
Petroleum operations—United States	**$ 5,772**	5,299	3,998
Petroleum operations—outside United States	**2,451**	2,210	2,005
Chemicals	**1,563**	1,544	1,384
Other	**705**	570	465
Eliminations (intersegment)	**(11)**	(34)	(32)
	$10,480	9,589	7,820
Depreciation, Depletion, Amortization and Retirements (see note on page 54)			
Petroleum operations—United States	**$ 565**	360	389
Petroleum operations—outside United States	**401**	401	371
Chemicals	**102**	62	64
Other	**38**	31	14
Corporate	**2**	4	—
Capital Expenditures—Properties, Plants and Equipment			
Petroleum operations—United States	**$ 1,228**	1,729	895
Petroleum operations—outside United States	**481**	521	423
Chemicals	**148**	166	181
Other	**149**	137	107
Corporate	**126**	111	60

Analysis of Results by Geographic Area

Years Ended December 31	Millions of Dollars		
	1982	1981	1980
Sales and Other Operating Revenues to Outside Customers			
United States	**$12,656**	12,564	10,589
Europe-Africa	**2,825**	3,044	2,566
Other areas	**217**	358	222
	15,698	15,966	13,377
Sales within Phillips between Geographic Areas			
United States	**136**	126	97
Europe-Africa	**442**	480	1,326
Other areas	**24**	21	18
	602	627	1,441
Eliminations (intergeographic)	**(602)**	(627)	(1,441)
Total	**$15,698**	15,966	13,377
Operating Profit			
United States	**$ 1,071**	1,353	1,217
Europe-Africa	**1,304**	1,471	2,048
Other areas	**(105)**	(60)	(10)
Eliminations (intergeographic)	**21**	(2)	(9)
	$ 2,291	2,762	3,246
Net Income	**$ 646**	879	1,070
Assets Identifiable by Geographic Area			
United States	**$ 7,734**	7,161	5,628
Europe-Africa	**2,509**	2,256	2,018
Other areas	**247**	203	203
Eliminations (intergeographic)	**(10)**	(31)	(29)
	$10,480	9,589	7,820
Export Sales	**$ 444**	481	374

Depreciation, depletion, amortization and retirements on page 53 includes for 1982, 1981 and 1980, respectively, $408, $242 and $279 million of dry hole costs and leasehold impairment, which are included in exploratory costs and leasehold impairment in the Consolidated Statements of Income and Earnings Employed in the Business on page 41.

Oil and Gas Operations
Oil and Gas Statistics—Unaudited

Net Crude Oil and Natural Gas Liquids Production	**1982**	1981	1980
	Thousands of Barrels Daily		
Crude Oil			
United States	**112**	116	120
Europe-Africa	**112**	125	164
Other areas	**1**	5	5
Total Crude Oil Production	**225**	246	289
Natural Gas Liquids			
United States leaseholds	**28**	31	34
United States plants	**120**	121	116
	148	152	150
Europe-Africa leaseholds	**12**	11	13
Total Natural Gas Liquids Production	**160**	163	163
Total Crude Oil and Natural Gas Liquids Production	**385**	409	452

Net Natural Gas Production	Millions of Cubic Feet Daily		
United States	**789**	899	943
Europe-Africa	**471**	488	554
Other areas	**—**	1	—
Total Natural Gas Production	**1,260**	1,388	1,497

Average Sales Prices	**1982**	1981	1980
Crude Oil—Per Barrel			
United States	**$29.06**	31.85	19.78
Europe-Africa	**34.35**	37.97	35.70
Other areas	**34.22**	35.70	32.67
Natural Gas Liquids—Per Barrel			
United States	**15.94**	17.05	15.24
Europe-Africa	**17.75**	17.04	14.88
Natural Gas—Per Thousand Cubic Feet			
United States leases*	**2.03**	1.67	1.38
United States leases and natural gas liquids plants*	**2.09**	1.68	1.45
Europe-Africa	**4.25**	3.64	3.14
Other areas	**2.19**	2.33	1.80

**Excludes sales of liquefied natural gas from Kenai, Alaska.*

Average Production (Lifting) Costs*—Per Equivalent Barrel of Oil			
United States	**$ 7.08**	8.12	3.96
Europe-Africa	**5.77**	5.62	4.29
Other areas	**27.89**	10.26	7.06

**"Production (lifting) costs" consists of costs incurred to operate and maintain wells and related equipment and facilities used in the production of petroleum liquids and natural gas. Also included is the U.S. crude oil excise tax of $226, $409 and $119 million in 1982, 1981 and 1980, respectively. It does not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.*

Oil and Gas Statistics—Unaudited

December 31, 1982	Thousands of Acres	
Acreage	Gross	Net
Developed Acreage		
United States	**2,023**	**1,578**
Europe-Africa	**2,509**	**1,371**
Other areas	**116**	**78**
Total Developed Acreage	**4,648**	**3,027**
Undeveloped Acreage		
United States	**10,209**	**6,735**
Europe *(Norwegian and United Kingdom sectors of North Sea, Ireland, Italy and Spain)*	**5,013**	**1,948**
Africa *(Ivory Coast, Egypt, Ghana, Nigeria and Sudan)*	**31,981**	**8,247**
Asia *(Indonesia, Thailand and Philippines)*	**21,098**	**8,975**
Canada *(Northwest Territories, British Columbia and Alberta)*	**5,306**	**1,924**
Latin America *(Peru)*	**4,928**	**1,478**
Australia	**2,003**	**668**
Total Undeveloped Acreage	**80,538**	**29,975**

Wells Completed*

	Gross			Net Productive			Net Dry		
	1982	1981	1980	**1982**	1981	1980	**1982**	1981	1980
Exploratory Wells									
United States	**80**	65	32	**10**	19	7	**33**	24	14
Europe-Africa	**27**	22	16	**3**	3	2	**8**	6	3
Other areas	**31**	52	57	**3**	11	12	**6**	12	7
Total Exploratory	**138**	139	105	**16**	33	21	**47**	42	24
Development Wells									
United States	**1,023**	894	784	**221**	227	191	**37**	16	18
Europe-Africa	**16**	25	30	**5**	7	7	**—**	1	2
Other areas	**—**	1	5	**—**	1	3	**—**	—	—
Total Development	**1,039**	920	819	**226**	235	201	**37**	17	20

**Excludes farmout arrangements.*

Wells at Year-End 1982

	In Progress*		Productive**			
			Oil		Gas	
	Gross	Net	Gross	Net	Gross	Net
United States	**159**	**53**	**28,116**	**6,439**	**4,008**	**2,323**
Europe-Africa	**19**	**6**	**225**	**62**	**89**	**24**
Other areas	**1**	**—**	**50**	**22**	**60**	**24**
Total Wells	**179**	**59**	**28,391**	**6,523**	**4,157**	**2,371**

**Includes wells which have been temporarily suspended.*
***Includes 1,041 gross and 419 net multiple completion wells.*

Capitalized Costs Relating to Oil and Gas Producing Activities—Audited

Years Ended December 31	Millions of Dollars				
	Proved Properties	Unproved Properties	Total	Accumulated Depreciation, Depletion and Amortization	Net
1982	**$4,934**	**1,168**	**6,102**	**(2,058)**	**4,044**
1981	4,321	1,326	5,647	(1,997)	3,650

- "Capitalized Costs Relating to Oil and Gas Producing Activities" includes the cost of equipment and facilities which support only oil and gas producing activities. Not included are investments in natural gas liquids plants and related systems as well as downstream manufacturing, distribution and marketing facilities required to convert raw petroleum liquids and natural gas into consumable products.
- "Proved properties" includes all capitalized costs related to oil and gas leaseholds containing proved petroleum liquids and natural gas reserves, wells and related equipment and facilities (including uncompleted well costs) and support equipment.
- "Unproved properties" includes all capitalized costs related to oil and gas leaseholds which are under exploration, including those where petroleum liquids and natural gas were found but not in sufficient quantities to be considered proved reserves.

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities—Audited

	Millions of Dollars			
	Property Acquisition	Exploration	Development	Total
1982				
United States	**$ 95**	**288**	**307**	**690**
Europe-Africa	**—**	**205**	**282**	**487**
Other areas	**2**	**99**	**—**	**101**
Total	**$ 97**	**592**	**589**	**1,278**
1981				
United States	$653	280	256	1,189
Europe-Africa	1	220	255	476
Other areas	5	121	18	144
Total	$659	621	529	1,809
1980				
United States	$158	210	157	525
Europe-Africa	19	130	230	379
Other areas	5	101	10	116
Total	$182	441	397	1,020

- "Costs incurred" includes both capitalized and expensed items.
- "Property acquisition" includes the costs of acquiring undeveloped oil and gas leaseholds.
- "Exploration" includes geological and geophysical expenses, the cost of carrying and retaining undeveloped leaseholds, and exploratory drilling costs.
- "Development" includes the cost of drilling and equipping development wells and building related production facilities for extracting, treating, gathering and storing petroleum liquids and natural gas.

Proved Reserves Worldwide—Unaudited

Years Ended December 31	Crude Oil Millions of Barrels				Natural Gas Liquids Millions of Barrels		
	United States	Europe-Africa	Other Areas	Total	United States	Europe-Africa	Total
Developed and Undeveloped							
1979	379	639	5	1,023	129	73	202
Revisions of previous estimates	27	(122)	(2)	(97)	11	(14)	(3)
Extensions and discoveries	8	6	1	15	1	—	1
Production	(44)	(61)	(2)	(107)	(13)	(5)	(18)
1980	370	462	2	834	128	54	182
Revisions of previous estimates	23	(59)	—	(36)	1	—	1
Extensions and discoveries	7	30	1	38	—	—	—
Production	(41)	(45)	(1)	(87)	(12)	(4)	(16)
1981	359	388	2	749	117	50	167
Revisions of previous estimates	18	13	—	31	16	9	25
Purchases of reserves in place	—	1	—	1	—	—	—
Extensions and discoveries	31	3	1	35	1	—	1
Production	(39)	(40)	—	(79)	(11)	(4)	(15)
1982	**369**	**365**	**3**	**737**	**123**	**55**	**178**
Developed							
1979	313	432	5	750	128	54	182
1980	309	349	2	660	127	50	177
1981	312	308	1	621	116	48	164
1982	**301**	**341**	**2**	**644**	**120**	**54**	**174**

- "Proved reserves" are those quantities of crude oil, natural gas liquids and natural gas which, upon analysis of geological and engineering data, appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions. As additional information becomes available or conditions change, proved reserve estimates must be revised.
- "Developed reserves" are those portions of proved crude oil, natural gas liquids and natural gas reserves which are recoverable through existing well bores and production equipment and facilities.
- "Proved crude oil" includes quantities attributable to fluid injection pressure maintenance programs planned for the Prudhoe Bay field in Alaska (estimated 28 million barrels) and designed into the development program for the Maureen field in the U.K. sector of the North Sea.

Years Ended December 31	Natural Gas Billions of Cubic Feet			
	United States	Europe-Africa	Other Areas	Total
Developed and Undeveloped				
1979	3,656	4,013	72	7,741
Revisions of previous estimates	(80)	(422)	(16)	(518)
Extensions and discoveries	118	—	—	118
Production	(331)	(231)	(1)	(563)
1980	3,363	3,360	55	6,778
Revisions of previous estimates	231	(138)	(7)	86
Purchases of reserves in place	4	—	—	4
Extensions and discoveries	147	255	—	402
Production	(320)	(182)	(2)	(504)
1981	3,425	3,295	46	6,766
Revisions of previous estimates	137	21	(2)	156
Purchases of reserves in place	1	8	—	9
Extensions and discoveries	143	56	—	199
Production	(274)	(178)	(1)	(453)
1982	**3,432**	**3,202**	**43**	**6,677**
Developed				
1979	3,523	3,131	72	6,726
1980	3,206	3,236	55	6,497
1981	3,246	3,051	46	6,343
1982	**3,236**	**2,930**	**43**	**6,209**

- "Proved natural gas" includes estimated reserves for which there presently is no market, as follows: 132 billion cubic feet from Prudhoe Bay field in Alaska in 1979, 1980, 1981 and 1982; 46 billion cubic feet from Ghost River field in Canada in 1979 and 1980, and 34 in 1981 and 1982; 905 billion cubic feet from fields in Nigeria in 1979 and 1980, 1,066 in 1981, and 1,062 in 1982.
- Prudhoe Bay reserves of 132 billion cubic feet, Ghost River reserves of 34 billion cubic feet and Nigerian reserves of 1,062 billion cubic feet are included at no value in "Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserve Quantities" shown on page 61.
- "Natural gas reserves" are computed at 14.65 pounds per square inch absolute and 60° Fahrenheit.

Results of Operations for Oil and Gas Producing Activities—Audited

	Millions of Dollars			
	United States	Europe-Africa	Other Areas	Total
1982				
Sales	**$ 968**	**879**	**12**	**1,859**
Transfers	**767**	**1,317**	**—**	**2,084**
Total revenues	**1,735**	**2,196**	**12**	**3,943**
Production (lifting) costs	**624**	**431**	**12**	**1,067**
Exploration expenses	**127**	**60**	**54**	**241**
Depreciation, depletion, amortization and retirements	**345**	**328**	**54**	**727**
	639	**1,377**	**(108)**	**1,908**
Provision for income taxes	**301**	**1,252**	**(6)**	**1,547**
Results of Operations for Producing Activities	**$ 338**	**125**	**(102)**	**361**
1981				
Sales	$1,034	1,016	64	2,114
Transfers	831	1,369	—	2,200
Total revenues	1,865	2,385	64	4,314
Production (lifting) costs	782	450	19	1,251
Exploration expenses	136	59	58	253
Depreciation, depletion, amortization and retirements	237	326	69	632
	710	1,550	(82)	2,178
Provision for income taxes	334	1,384	—	1,718
Results of Operations for Producing Activities	$ 376	166	(82)	460
1980				
Sales	$ 697	1,051	100	1,848
Transfers	602	1,811	—	2,413
Total revenues	1,299	2,862	100	4,261
Production (lifting) costs	398	426	13	837
Exploration expenses	93	40	56	189
Depreciation, depletion, amortization and retirements	296	337	28	661
	512	2,059	3	2,574
Provision for income taxes	245	1,782	14	2,041
Results of Operations for Producing Activities	$ 267	277	(11)	533

- "Sales" excludes revenues received from operation of natural gas liquids plants and related gas systems. Transfers are valued at prices which approximate market prices.
- "Production (lifting) costs" consists of costs incurred to operate and maintain wells and related equipment and facilities used in the production of crude oil, natural gas liquids and natural gas. Also included is the U.S. crude oil excise tax of $226 million in 1982, $409 million in 1981 and $119 million in 1980. It does not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.
- "Exploration expenses" primarily includes geological and geophysical expenses and the cost of carrying and retaining undeveloped leaseholds.
- "Provision for income taxes" is computed using each country's statutory tax rate adjusted for permanent differences relating to the oil and gas producing activities that are reflected in the company's consolidated income tax expense for the period.
- "Results of operations for producing activities" should not be equated to net income since no deduction has been made for such costs and expenses as distribution, selling, administrative and interest.

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserve Quantities—Unaudited

	Millions of Dollars			
	United States	Europe-Africa	Other Areas	Total
1982				
Future cash inflows	**$16,350**	**21,358**	**108**	**37,816**
Future production costs	**(5,212)**	**(4,643)**	**(90)**	**(9,945)**
Future development costs	**(497)**	**(1,358)**	**(8)**	**(1,863)**
Future income tax provisions	**(4,733)**	**(11,750)**	**—**	**(16,483)**
Future net cash flows	**5,908**	**3,607**	**10**	**9,525**
10% annual discount	**(2,864)**	**(1,160)**	**(1)**	**(4,025)**
Discounted future net cash flows	**$ 3,044**	**2,447**	**9**	**5,500**
1981				
Future cash inflows	$15,768	23,290	95	39,153
Future production costs	(5,774)	(4,315)	(58)	(10,147)
Future development costs	(312)	(1,447)	(4)	(1,763)
Future income tax provisions	(4,229)	(13,444)	—	(17,673)
Future net cash flows	5,453	4,084	33	9,570
10% annual discount	(2,594)	(1,291)	5	(3,880)
Discounted future net cash flows	$ 2,859	2,793	38	5,690
1980				
Future cash inflows	$15,630	25,368	154	41,152
Future production costs	(5,670)	(3,803)	(78)	(9,551)
Future development costs	(267)	(1,290)	(15)	(1,572)
Future income tax provisions	(4,225)	(15,942)	—	(20,167)
Future net cash flows	5,468	4,333	61	9,862
10% annual discount	(2,484)	(1,503)	(26)	(4,013)
Discounted future net cash flows	$ 2,984	2,830	35	5,849

- "Future net cash flows" is computed using year-end prices and costs, and year-end statutory tax rates (adjusted for permanent differences), that relate to existing proved oil and gas reserves in which the company has mineral interests.

The following are the sources of change in the standardized measure of discounted future net cash flows during 1982, 1981 and 1980.

	Millions of Dollars		
	1982	1981	1980
Sales and transfers of oil and gas produced, net of production costs	**$(2,876)**	(3,063)	(3,424)
Net changes in prices and production costs	**(317)**	42	5,770
Extensions, discoveries, additions and improved recovery, less related costs	**483**	849	270
Development costs incurred during the period	**589**	529	397
Revisions of previous quantity estimates	**(85)**	(1,542)	(4,709)
Accretion of discount	**1,488**	1,643	1,648
Net change in income taxes	**528**	1,383	(614)

Supplementary Information on Changing Prices and the Effects of General Inflation—Unaudited

In compliance with FASB Statement No. 33, "Financial Reporting and Changing Prices," the following supplementary data are provided to demonstrate the effects of inflation on Phillips.

The primary financial statements, prepared on a historical cost basis according to generally accepted accounting principles, report transactions in terms of actual dollars received or expended at the time regardless of the relative purchasing power of the dollar. In the accompanying schedules, historical dollar financial data are compared with data comprehensively adjusted under two methods—constant dollar, which gives effect to general inflation, and current cost, which gives effect to changes in prices of specific goods and services used by the company.

Under the constant dollar method, the Consumer Price Index—All Urban Consumers (CPI-U), published by the U.S. Department of Labor, is used to restate historical costs in 1982 end-of-year dollars. Otherwise, the restated amounts do not represent any measure of current values of the underlying assets, and may not be representative of inflation in the petroleum industry. Under the current cost method, current costs and prices, industry-related published indices and internally generated indices are used, as appropriate, to translate historical costs into 1982 end-of-year dollars. Although current cost estimates are highly subjective and imprecise, they can be viewed as indicators of the impact of changing prices on the company and its operations.

Constant dollar net income and current cost net income are lower than historical cost net income. There are two principal reasons: (1) the historical dollar capital recovery charge (depreciation, depletion, amortization and retirements) is far less than either the constant dollar or current dollar cost of capital asset maintenance, and (2) the provision for income taxes does not decline with reductions in real income before income taxes. The provision for income taxes included for both constant dollar and current cost is unchanged from the amount reported in the primary statement of income, as required by FASB Statement No. 33, except for restatement to end-of-year dollars. Effective tax rates for 1982 under both methods, 92 and 117 percent, respectively, are significantly higher than statutory rates since income taxes are based on reported income rather than on true economic results.

Comparative Summary Financial Data—Unaudited

	Millions of Dollars					
	1982 (1)			1981 (1)		
	Historical	Constant Dollars	Current Cost	**Historical**	Constant Dollars	Current Cost (2)
Summary Consolidated Balance Sheets						
Properties, Plants and Equipment (net)	**$ 8,548**	12,910	17,932	**7,548**	12,087	16,714
Inventories	**759**	1,050	1,767	**883**	1,316	2,127
Other Assets	**2,790**	3,005	2,937	**2,833**	3,171	3,058
Liabilities	**6,324**	6,354	6,354	**5,783**	6,056	6,056
Stockholders' Equity (net assets)	**5,773**	10,611	16,282	**5,481**	10,518	15,843
Summary Consolidated Statements of Income						
Revenues	**$15,892**	16,060	16,062	**16,288**	17,472	17,467
Costs and Expenses						
Costs and operating expenses (3)	**11,481**	11,736	11,746	**11,417**	12,261	12,290
Depreciation, depletion, amortization and retirements (4)	**1,108**	1,505	1,845	**858**	1,323	1,560
Other	**1,203**	1,217	1,217	**1,342**	1,441	1,441
Provision for Income Taxes	**1,454**	1,471	1,471	**1,792**	1,924	1,924
Net Income	**$ 646**	131	(217)	**879**	523	252

See footnotes on page 63.

Five-Year Comparison of Selected Supplementary Financial Data—Unaudited

Years Ended December 31	Millions of Dollars Except Per Share Amounts (1)				
	1982(5)	1981	1980	1979	1978
Revenues					
Historical dollars	**$15,892**	**16,288**	**13,713**	**9,745**	**7,422**
Constant dollars	16,060	17,472	16,223	13,080	11,106
Net Income					
Historical dollars	**$ 646**	**879**	**1,070**	**891**	
Constant dollars	131	523	835	834	
Current cost (2)	(217)	252	467	373	
Net Income Per Share					
Historical dollars	**$ 4.23**	**5.78**	**7.01**	**5.77**	
Constant dollars	.86	3.44	5.47	5.40	
Current cost (2)	(1.42)	1.66	3.06	2.41	
Stockholders' Equity (net assets)					
Historical dollars	**$ 5,773**	**5,481**	**4,937**	**4,257**	
Constant dollars	10,611	10,518	10,164	7,969	
Current cost (2)	16,282	15,843	15,614	14,922	
Unrealized Gains Attributable to Net Monetary Amounts Owed	$ 113	166	144	147	
Increase in Current Cost of Inventories, Properties, Plants and Equipment (2)	$ 1,532	1,605	2,235	3,833	
Effect of Increase in General Price Level	703	1,458	1,819	1,630	
Current Cost over General Price Level (2)	$ 829	147	416	2,203	
Dividends Paid Per Share					
Historical dollars	**$ 2.20**	**2.20**	**1.80**	**1.35**	**1.20**
Constant dollars	2.23	2.36	2.13	1.81	1.80
Market Price Per Share—end of year					
Historical dollars	**$ 32.63**	**40.50**	**58.75**	**48.00**	**31.63**
Constant dollars	32.63	42.07	66.48	61.05	45.58
Consumer Price Index—average for year	289.1	272.4	246.8	217.4	195.4
Consumer Price Index—end of year	292.4	281.5	258.4	229.9	202.9

(1) Both constant dollars and current cost are stated in 1982 end-of-year dollars.

(2) Supplementary current cost adjusted data for 1981 and prior years have been restated to reflect more nearly the current finding and development costs for oil and gas operations outside the United States and to identify properly the inventory changes.

(3) Includes $259 and $293 million in 1982 and 1981, respectively, of geological and geophysical expenses and lease rentals, which are included in exploratory costs and leasehold impairment in the Consolidated Statements of Income and Earnings Employed in the Business on page 41.

(4) Includes $408 and $242 million in 1982 and 1981, respectively, of dry hole costs and leasehold impairment, which are included in exploratory costs and leasehold impairment in the Consolidated Statements of Income and Earnings Employed in the Business on page 41.

(5) The supplementary financial information on changing prices reflects the adoption of FASB Statement No. 52, "Foreign Currency Translation," for 1982 primary financial statements as reported in Note 1.

Consolidated Statements of Income

Years Ended December 31	Millions of Dollars Except as Indicated									
	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Revenues										
Sales and other operating revenues	**$15,698**	15,966	13,377	9,503	6,998	6,284	5,698	5,134	4,981	2,990
Sale of Pacific Petroleums Ltd.	**—**	—	—	—	306	—	—	—	—	—
Other revenues (including equity in earnings of affiliated companies)	**194**	322	336	242	118	122	139	79	125	83
Total Revenues	**15,892**	16,288	13,713	9,745	7,422	6,406	5,837	5,213	5,106	3,073
Costs and Expenses										
Purchased crude oil and products	**9,121**	9,020	6,755	4,805	3,562	3,369	3,197	2,889	2,879	1,511
Production and operating expenses	**2,101**	2,104	1,849	1,402	1,117	953	736	709	668	577
Exploratory costs and leasehold impairment	**667**	535	481	393	243	170	176	207	163	*
Selling, general and administrative expenses	**500**	491	420	367	284	292	322	322	311	291
Depreciation, depletion, amortization and retirements	**700**	616	559	395	315	240	217	191	179	239
Taxes other than income taxes	**477**	649	303	150	115	104	93	94	85	69
Interest and expense on indebtedness	**226**	202	106	97	79	82	68	50	53	62
Total Costs and Expenses	**13,792**	13,617	10,473	7,609	5,715	5,210	4,809	4,462	4,338	2,749
Income before income taxes	**2,100**	2,671	3,240	2,136	1,707	1,196	1,028	751	768	324
Provision for income taxes	**1,454**	1,792	2,170	1,245	989	665	616	416	352	94
Income before extraordinary items and accounting change	**646**	879	1,070	891	718	531	412	335	416	230
Extraordinary items and accounting change	**—**	—	—	—	—	—	—	—	(28)	(18)
Net Income	**$ 646**	879	1,070	891	718	531	412	335	388	212
Per Average Share Outstanding**										
Income before extraordinary items and accounting change	**$ 4.23**	5.78	7.01	5.77	4.66	3.46	2.70	2.20	2.74	1.52
Net income	**4.23**	5.78	7.01	5.77	4.66	3.46	2.70	2.20	2.56	1.40
Dividends paid per share	**2.20**	2.20	1.80	1.35	1.20	.97½	.87½	.80	.72½	.65
Income before Extraordinary Items and Accounting Change										
As percent of average total assets	**5.3**	8.2	11.5	12.0	11.8	9.8	8.4	7.6	10.4	6.4
As percent of total revenues	**4.1**	5.4	7.8	9.1	9.7	8.3	7.1	6.4	8.1	7.5
Percent of Total Revenues from Sales Outside U.S.	**22.8**	25.6	25.2	25.3	29.5	21.1	22.5	18.6	24.5	21.5

**Not available.*

***Adjusted for two-for-one stock split in 1977.*

Consolidated Balance Sheets

At December 31	Millions of Dollars Except Per Share Amounts									
	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Assets										
Current Assets										
Cash and short-term investments	**$ 793**	895	1,471	1,300	1,136	327	702	523	393	441
Accounts and notes receivable (net)	**1,227**	1,126	1,422	1,431	845	791	715	634	616	507
Inventories:										
Crude oil, petroleum products, chemicals and merchandise	**488**	602	529	479	403	385	328	340	369	239
Materials and supplies	**271**	281	167	125	108	113	118	129	92	50
Prepaid expenses and other current assets	**130**	144	105	51	69	79	41	39	28	27
Total Current Assets	**2,909**	3,048	3,694	3,386	2,561	1,695	1,904	1,665	1,498	1,264
Investments and Long-Term Receivables (net)	**450**	512	367	276	230	501	460	437	399	423
Properties, Plants and Equipment (net)	**8,548**	7,548	5,675	4,778	3,945	3,467	2,721	2,506	2,236	2,144
Deferred Charges	**190**	156	108	79	98	79	60	43	21	17
Total Assets	**$12,097**	11,264	9,844	8,519	6,834	5,742	5,145	4,651	4,154	3,848
Liabilities										
Current Liabilities										
Accounts payable	**$ 1,254**	1,375	1,313	1,243	795	672	553	526	542	382
Notes payable	**152**	515	8	18	2	2	6	—	1	19
Long-term debt and obligations due within one year	**41**	41	60	79	85	79	70	73	62	82
Accrued income and other taxes	**1,086**	1,182	1,567	1,257	827	413	429	262	265	118
Other accruals	**179**	124	157	81	61	61	51	49	43	44
Total Current Liabilities	**2,712**	3,237	3,105	2,678	1,770	1,227	1,109	910	913	645
Long-Term Debt	**1,900**	1,031	698	648	676	767	839	893	658	799
Other Long-Term Liabilities	**495**	397	270	154	89	49	1	2	2	—
Obligations under Capital Leases	**55**	69	75	97	121	156	176	200	221	242
Accrued Contingent Liabilities	**224**	235	165	135	144	94	60	66	60	90
Deferred Income Taxes	**838**	710	491	464	392	350	257	170	35	48
Other Deferred Credits	**63**	77	90	75	57	71	73	75	77	74
Minority Interest in Consolidated Subsidiaries	**37**	27	13	11	10	10	11	12	8	5
Total Liabilities	**6,324**	5,783	4,907	4,262	3,259	2,724	2,526	2,328	1,974	1,903
Stockholders' Equity										
Common Stock ($1.25 par value)	**193**	193	193	193	193	192	191	191	191	190
Capital in Excess of Par Value	**492**	511	511	511	511	489	472	455	451	444
Foreign Currency Translation Adjustments	**(69)**	—	—	—	—	—	—	—	—	—
Earnings Employed in the Business	**5,225**	4,892	4,348	3,553	2,871	2,337	1,956	1,677	1,542	1,326
	5,841	5,596	5,052	4,257	3,575	3,018	2,619	2,323	2,184	1,960
Treasury Stock (at cost)	**(68)**	(115)	(115)	—	—	—	—	—	(4)	(15)
Total Stockholders' Equity	**5,773**	5,481	4,937	4,257	3,575	3,018	2,619	2,323	2,180	1,945
Total Liabilities and Stockholders' Equity	**$12,097**	11,264	9,844	8,519	6,834	5,742	5,145	4,651	4,154	3,848
Stockholders' Equity Per Share*	**$ 37.71**	36.02	32.44	27.57	23.15	19.63	17.11	15.23	14.32	12.85

**Adjusted for two-for-one stock split in 1977.*

Consolidated Statements of Changes in Financial Position

Years Ended December 31	Millions of Dollars									
	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Source										
Funds from operations	**$ 1,919**	1,954	1,928	1,592	1,084	969	803	710	728	469
Long-term borrowings	**939**	377	95	30	3	76	67	325	85	86
Property sales and retirements	**101**	44	88	60	51	53	199	99	107	43
Sale of investments	**9**	12	69	36	449	1	24	4	20	10
Sale of company stock	**28**	—	—	—	23	17	18	8	18	12
Other	**32**	22	5	23	43	18	—	1	15	29
	$ 3,028	2,409	2,185	1,741	1,653	1,134	1,111	1,147	973	649
Application										
Properties, plants and equipment:										
Energy Resources	**$ 1,383**	1,995	1,058	876	589	793	471	476	420	245
Petroleum Products	**389**	330	336	423	187	83	110	140	92	46
Chemicals	**148**	166	181	114	126	161	121	57	68	36
Other	**212**	173	91	41	38	41	14	6	7	2
Total properties, plants and equipment	**2,132**	2,664	1,666	1,454	940	1,078	716	679	587	329
Investments	**18**	98	147	40	19	36	36	35	9	23
Reduction of long-term borrowings	**69**	46	66	84	136	163	149	113	255	102
Dividends to company stockholders	**336**	335	275	208	185	150	134	122	110	98
Purchase of company stock	**—**	—	115	—	—	—	—	—	—	—
Other	**87**	44	35	38	50	34	35	29	46	(4)
Increase (decrease) in working capital	**386**	(778)	(119)	(83)	323	(327)	41	169	(34)	101
	$ 3,028	2,409	2,185	1,741	1,653	1,134	1,111	1,147	973	649

Properties, Plants and Equipment

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Gross Investment										
Energy Resources	**$ 7,925**	7,197	5,494	4,665	4,061	3,621	2,943	2,576	2,410	2,183
Petroleum Products	**2,607**	2,258	2,005	1,713	1,331	1,242	1,231	1,432	1,333	1,289
Chemicals	**1,487**	1,479	1,288	1,140	1,062	949	800	742	707	841
Other	**683**	480	319	237	202	161	142	118	110	105
	$12,702	11,414	9,106	7,755	6,656	5,973	5,116	4,868	4,560	4,418
Net Investment										
Energy Resources	**$ 5,327**	4,709	3,328	2,869	2,477	2,204	1,618	1,356	1,171	1,001
Petroleum Products	**1,799**	1,577	1,374	1,106	742	634	635	726	659	642
Chemicals	**873**	895	750	654	605	538	391	370	356	452
Other	**549**	367	223	149	121	91	77	54	50	49
	$ 8,548	7,548	5,675	4,778	3,945	3,467	2,721	2,506	2,236	2,144

Chemicals

	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Operating Revenues	Millions of Dollars									
Basic petrochemicals and specialty chemicals	**$ 935**	1,010	925	813	478	420	417	319	424	167
Plastic resins	**508**	476	467	427	243	220	209	130	131	95
Rubber chemicals	**308**	309	296	296	254	222	190	165	173	111
Consumer products	**266**	302	283	229	194	174	160	152	138	110
Fertilizers	**139**	128	96	80	63	77	78	114	160	158
Synthetic fibers	**97**	97	74	77	73	76	71	92	161	151
Other sales and services	**103**	148	108	135	79	85	105	86	132	90
	$2,356	2,470	2,249	2,057	1,384	1,274	1,230	1,058	1,319	882

Other Data

Shares outstanding at year-end* (in millions)	**153.1**	152.2	152.2	154.4	154.4	153.7	153.1	152.5	152.2	151.4
Stockholders at year-end (in thousands)	**123.1**	120.4	119.9	121.2	122.6	122.3	120.2	126.9	131.6	136.0
Total payroll including employee benefits (in millions)	**$1,278**	1,178	1,015	863	720	613	550	529	479	415
Employees at year-end (in thousands)	**29.6**	34.5	32.4	30.3	30.0	28.4	27.8	30.5	30.8	33.4

**Adjusted for two-for-one stock split in 1977.*

Operating Summary

Exploration and Production	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Net Crude Oil Production	Thousands of Barrels Daily									
United States										
Texas	**33.9**	36.1	39.2	42.8	45.5	48.4	50.8	54.2	56.3	57.7
Alaska	**29.7**	29.6	29.9	26.4	24.2	9.9	4.6	4.2	4.1	4.7
Louisiana	**14.0**	16.2	15.8	15.8	15.7	17.4	18.4	18.0	19.6	21.5
Oklahoma	**7.8**	7.9	8.4	9.0	9.8	10.1	10.5	10.4	11.8	13.7
New Mexico	**7.2**	6.1	6.0	5.4	5.6	6.2	6.8	6.9	7.4	8.0
Arkansas	**3.7**	3.9	4.0	3.9	4.5	4.7	4.1	4.1	3.1	2.4
Wyoming	**3.3**	2.9	2.8	3.4	4.1	4.7	4.6	4.2	4.5	2.0
Other states	**12.7**	13.4	14.0	14.7	15.6	15.6	15.5	16.4	16.7	12.3
Total United States	**112.3**	116.1	120.1	121.4	125.0	117.0	115.3	118.4	123.5	122.3
Outside United States										
Europe	**85.5**	100.1	130.1	119.4	116.8	93.1	92.8	63.1	11.5	10.7
Africa	**26.3**	24.3	33.9	41.2	44.9	43.6	38.6	33.8	38.1	35.5
Southeast Asia	**1.1**	5.0	4.9	6.1	18.3	5.6	—	—	—	—
Middle East	**—**	—	—	—	5.4	5.6	5.9	6.2	9.1	9.1
Latin America	**—**	—	—	—	—	—	—	15.5	20.8	23.1
Total Outside United States	**112.9**	129.4	168.9	166.7	185.4	147.9	137.3	118.6	79.5	78.4
Total Crude Oil Production	**225.2**	245.5	289.0	288.1	310.4	264.9	252.6	237.0	203.0	200.7

Operating Summary

Exploration and Production	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973
Net Natural Gas Liquids Production*	Thousands of Barrels Daily									
Europe leaseholds	**12.4**	11.5	13.0	6.3	.2	.2	.3	.3	.3	.3
Latin America leaseholds	—	—	—	—	—	—	—	1.8	2.3	2.3
Total Natural Gas Liquids Production	**12.4**	11.5	13.0	6.3	.2	.2	.3	2.1	2.6	2.6

**See page 69 for natural gas liquids production by Gas and Gas Liquids operations.*

Net Natural Gas Production	Millions of Cubic Feet Daily									
United States	**789**	899	943	1,072	1,130	1,159	1,247	1,312	1,433	1,481
Europe	**471**	488	554	485	419	184	133	125	116	94
Canada	—	1	—	1	—	—	—	—	—	—
Latin America	—	—	—	—	—	—	—	18	21	28
Total Natural Gas Production	**1,260**	1,388	1,497	1,558	1,549	1,343	1,380	1,455	1,570	1,603

Net Oil and Gas Acreage	Millions of Acres									
United States	**8.3**	9.7	9.2	6.2	6.1	6.0	6.6	7.2	7.2	6.8
Canada	**2.0**	1.9	2.2	2.7	2.6	2.1	3.2	3.4	3.5	3.2
Latin America	**1.5**	14.5	15.9	18.1	20.3	4.7	3.6	12.2	13.0	5.8
Europe	**2.0**	2.2	2.6	3.0	1.4	1.0	1.4	1.5	1.5	1.4
Africa	**9.5**	14.3	7.0	9.7	15.3	6.9	7.2	8.0	13.2	9.9
Middle East	—	—	—	—	—	—	1.7	1.8	3.0	3.0
Southeast Asia	**9.0**	18.8	12.4	5.9	5.3	10.2	25.0	28.6	32.1	37.3
Australia and New Zealand	**.7**	4.3	2.2	1.6	22.5	23.8	23.7	1.5	5.3	6.1
Total Net Oil and Gas Acreage	**33.0**	65.7	51.5	47.2	73.5	54.7	72.4	64.2	78.8	73.5

Oil and Gas Wells	Net Wells									
United States										
Oil	**6,439**	6,396	6,233	6,104	6,141	6,210	6,202	6,191	6,184	5,806
Gas and condensate	**2,323**	2,293	2,237	2,185	2,164	2,132	2,129	2,122	2,086	2,006
Outside United States										
All wells	**132**	127	116	100	79	105	91	82	267	262
Total Oil and Gas Wells	**8,894**	8,816	8,586	8,389	8,384	8,447	8,422	8,395	8,537	8,074

Well Completions										
United States										
Exploratory	**43**	43	21	10	6	5	18	44	53	38
Development	**258**	243	209	118	94	134	161	172	136	156
Outside United States										
Exploratory	**20**	32	24	32	20	14	13	21	24	23
Development	**5**	9	12	11	3	6	8	12	16	9
Total Well Completions	**326**	327	266	171	123	159	200	249	229	226

Operating Summary

Gas and Gas Liquids	**1982**	1981	1980	1979	1978	1977	1976	1975	1974	1973
Natural Gas Purchases	Millions of Cubic Feet Daily									
United States										
Purchases from unaffiliated entities	**1,215**	1,220	1,112	1,145	999	1,030	1,051	1,124	1,171	1,229
Purchases from consolidated operations	**388**	422	451	509	526	557	599	630	671	639
Total Natural Gas Purchases	**1,603**	1,642	1,563	1,654	1,525	1,587	1,650	1,754	1,842	1,868
Natural Gas Processed (United States)	**1,700**	1,799	1,871	1,825	1,849	1,972	2,040	2,401	2,842	2,871
Natural Gas Sales										
United States										
Natural gas	**811**	784	739	727	755	828	866	964	1,043	1,155
Liquefied natural gas	**96**	107	86	99	93	99	96	102	96	93
Total Natural Gas Sales	**907**	891	825	826	848	927	962	1,066	1,139	1,248
Net Natural Gas Liquids Production*	Thousands of Barrels Daily									
United States										
Leaseholds	**28.0**	31.3	33.5	37.9	34.9	39.3	36.2	35.6	37.1	35.4
Plants	**119.7**	120.6	116.1	103.7	98.9	98.9	94.6	90.3	95.1	99.4
Total Natural Gas Liquids Production	**147.7**	151.9	149.6	141.6	133.8	138.2	130.8	125.9	132.2	134.8

**See page 68 for natural gas liquids production by Exploration and Production operations.*

Petroleum Products

Refinery Capacity	Thousands of Barrels Daily									
United States										
Crude oil	**374***	380	425	302	323	323	323	408	408	404
Natural gas liquids	**228**	228	176	176	186	186	186	165	165	165
Outside United States										
Crude oil	—	—	—	—	—	—	—	—	6	4
Total Refinery Capacity	**602**	608	601	478	509	509	509	573	579	573

**Includes the 80,000-barrel-a-day Kansas City refinery closed August 1, 1982.*

Refinery Runs										
United States										
Crude oil	**277**	285	262	287	302	297	318	368	373	395
Natural gas liquids	**179**	167	159	153	138	153	142	133	148	147
Outside United States										
Crude oil	—	—	—	—	—	—	—	2	1	2
Total Refinery Runs	**456**	452	421	440	440	450	460	503	522	544

Operating Summary

Petroleum Products	**1982**	1981	1980	1979	1978	1977	1976	1975	1974	1973
Petroleum Products Sold	Thousands of Barrels Daily									
United States										
Automotive gasoline	**216**	209	214	220	250	237	272	304	286	299
Aviation fuels	**29**	23	19	24	27	26	25	24	30	27
Distillates	**77**	77	81	82	82	72	87	99	100	95
Liquefied petroleum gas	**108**	94	106	100	92	119	101	97	92	91
Other products	**31**	43	40	32	32	37	43	31	33	41
Total United States	**461**	446	460	458	483	491	528	555	541	553
Outside United States (including exports)	**52**	55	49	50	33	41	49	56	60	84
Total Petroleum Products Sold	**513**	501	509	508	516	532	577	611	601	637
Marketing Outlets (in thousands)	**13.9**	14.3	12.8	13.4	13.6	14.8	15.6	17.7	18.6	21.2

Management and Board of Directors Changes

On April 1, Wm. C. Douce became chairman of the board of directors and chief executive officer. He formerly was president and chief executive officer. Douce succeeded W. F. Martin who retired as chairman of the board on March 31 upon reaching normal retirement age 65. Also on April 1, C. J. Silas became president and chief operating officer. He was formerly an executive vice president in charge of the company's Exploration and Production, Gas and Gas Liquids and Minerals operations. During the year, two members retired from the board of directors. On April 27, William Piel, Jr., retired upon reaching the mandatory retirement age of 72. On Dec. 31, L. H. Johnstone, vice chairman of the board, retired upon reaching age 65. James B. Edwards, president of the Medical University of South Carolina and former U.S. Secretary of Energy, was elected to the board effective Jan. 1, 1983. The election of Edwards brought the total number of directors to 16, of whom 11 are nonemployee members. On Nov. 1, J. Thomas Boyd was elected vice president Public Affairs. He formerly was manager of Public Affairs. Four officers of the company retired. On April 1, R. G. Rhodes, vice president planning and development for Chemicals, retired upon reaching age 65. He was succeeded by E. K. Grigsby, who was named manager of planning and development. On Jan. 1, 1983, Edwin Van den Bark, senior vice president technology and planning for Exploration and Production, and H. D. Trotter, vice president Engineering, retired upon reaching age 65. Trotter was succeeded by W. E. Barr, who was named manager of Engineering. Also on Jan. 1, 1983, Sloan K. Childers, vice president, elected to take early retirement.

Board of Directors and Principal Officers

As of March 1, 1983

Directors

George B. Beitzel, Director and member of the Corporate Management Committee of International Business Machines Corporation, a manufacturer of computers and office equipment, Armonk, N.Y. (3),(5)

Michael N. Chetkovich, Director of External Affairs, School of Business Administration, University of California, and retired managing partner in the accounting firm of Deloitte Haskins & Sells, Atherton, Calif. (2),(5)

Glenn A. Cox, Executive Vice President (1)

Wm. C. Douce, Chairman of the Board of Directors and Chief Executive Officer (1)

James B. Edwards, President of the Medical University of South Carolina and former U.S. Secretary of Energy, Charleston, S.C.(4),(5)

E. Douglas Kenna, Partner in G. L. Ohrstrom & Company, a private investment group, Palm Beach, Fla. (3),(4)

C. M. Kittrell, Executive Vice President (1)

Melvin R. Laird, Senior Counsellor for National and International Affairs for The Reader's Digest Association, Inc., Washington, D.C. (4),(5)

Carol C. Laise, Retired Director General of the U.S. Foreign Service in the State Department and former U.S. Ambassador to Nepal, Washington, D.C. (2),(3)

W. F. Martin, Retired Chairman of the Board of Directors (5)

David B. Meeker, Retired Chairman of the Board of Directors of Hobart Corporation, a manufacturer of food equipment and home appliances, Troy, Ohio (3),(4)

C. J. Silas, President and Chief Operating Officer (1)

R. G. Wallace, Executive Vice President (1)

W. Clarke Wescoe, Chairman of the Board of Directors and Chief Executive Officer of Sterling Drug Inc., a diversified pharmaceutical company, New York, N.Y. (2),(3)

Dolores D. Wharton, President of The Fund for Corporate Interns, Inc., a nonprofit organization that arranges business internships for minority and women students, Albany, N.Y. (2),(5)

Francis M. Wheat, Senior partner in the law firm of Gibson, Dunn & Crutcher, Los Angeles, Calif. (2),(4)

Officers

Wm. C. Douce, Chairman of the Board of Directors and Chief Executive Officer
C. J. Silas, President and Chief Operating Officer
Glenn A. Cox, Executive Vice President
C. M. Kittrell, Executive Vice President
R. G. Wallace, Executive Vice President

Exploration and Production

L. M. Rickards, Senior Vice President
W. W. Dunn, Vice President Exploration

Petroleum Products

Gordon D. Goering, Senior Vice President
John E. Harris, Jr., Vice President Supply
G. J. Morrison, Vice President Marketing
Richard I. Robinson, Vice President Refining

Chemicals

R. G. Askew, Senior Vice President

Gas and Gas Liquids

Paul W. Tucker, Vice President

Minerals

K. L. Smalley, Vice President

Other Corporate Officers

J. W. Davison, Senior Vice President Planning and Development
O. W. Armstrong, Vice President Treasury
J. Thomas Boyd, Vice President Public Affairs
C. F. Cook, Vice President Research and Development
Kenneth Heady, Vice President and General Counsel
Russell L. Howard, Vice President Financial Relations
Carstens Slack, Vice President Washington Office
Ray G. Steiner, Vice President Services
W. R. Thomas, Vice President Human Resources
J. Bryan Whitworth, Vice President Government Relations
R. E. Bonnell, Treasurer
J. C. English, Assistant Treasurer
C. B. Friley, Assistant Treasurer
J. W. O'Toole, General Tax Officer
E. A. Baldwin, Assistant General Tax Officer
L. F. Francis, Assistant General Tax Officer
W. E. Thomas, Comptroller
E. R. Chandler, Assistant Comptroller
James A. Kelly, Assistant Comptroller
Harvey W. Thompson, Secretary
D. L. Cone, Assistant Secretary
Betty L. Crocker, Assistant Secretary
L. E. Burnham, General Auditor

(1)Member Executive Committee
(2)Member Audit Committee
(3)Member Compensation Committee
(4)Member Nominating Committee
(5)Member Public Policy Committee

Stockholder Information

Annual Meeting
The annual meeting of stockholders will be held at 10 a.m. April 26, 1983, at the company's headquarters in Bartlesville, Okla. Notice of the meeting and proxy material are being sent to all stockholders under separate cover.

Principal Offices
Bartlesville, Okla. 74004

630 Fifth Avenue
New York, N.Y. 10111

306 South State Street
Dover, Del. 19901

Stock Transfer Offices
Manufacturers Hanover Trust Company
Corporate Trust
450 West 33rd Street
New York, N.Y. 10001

Montreal Trust Company
15 King Street West
Toronto, Ontario
Canada M5H 1B4

Registrars
Manufacturers Hanover Trust Company
Corporate Trust
450 West 33rd Street
New York, N.Y. 10001

Canada Permanent Trust Company
20 Eglinton Avenue West
Toronto, Ontario
Canada M4R 2E2

Selected Subsidiaries
Applied Automation, Inc.
Phillips Chemical Company
Phillips Coal Company
Phillips Driscopipe, Inc.
Phillips Fibers Corporation
Phillips Oil Company
N.V. Phillips Petroleum Chemicals S.A.
Phillips Petroleum Company Europe-Africa
Phillips Petroleum Company Norway
Phillips Pipe Line Company
Phillips Puerto Rico Core Inc.
Philtankers Inc.
Pier 66 Company

Form 10-K
Copies of the company's annual report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge by writing to Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, Okla. 74004.

Copies of the company's Annual Contributions Report may be obtained without charge by writing to Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, Okla. 74004.

Should you have questions about the information in this annual report or about the company, please contact Phillips investor relations office in New York City (212/397-9760) or Bartlesville (918/661-5139).

Questions regarding stockholder records, stock certificates, dividend checks or the dividend reinvestment plan should be directed to Phillips stockholder records section in Bartlesville (918/661-6345).

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004

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